

Connected by trust

The background of the cover features a complex network of thin, white and blue lines that flow and curve across the page, creating a sense of movement and connectivity. Overlaid on these lines are several geometric network diagrams, consisting of interconnected nodes and lines, which further emphasize the theme of technology and trust.

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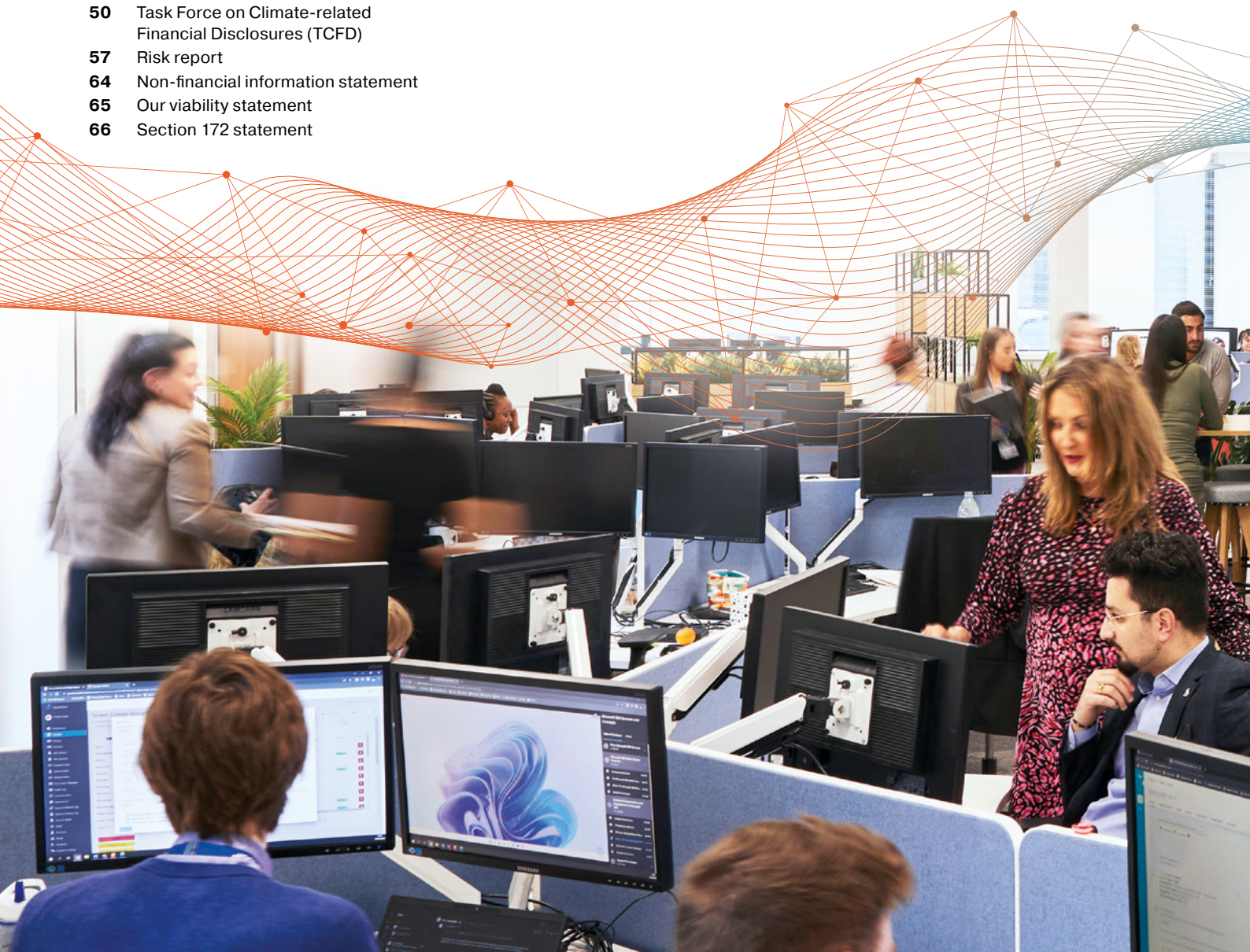
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“ Our business is built on long-term relationships underpinned by trust. As you’ll see in this report, world-leading vendors trust us with their products, our customers trust us to deliver the highest quality work, and our people trust us to support and empower them.

Neil Murphy
CEO



Bytes Technology Group plc (BTG) is one of the UK's leading providers of software, IT security, cloud services and hardware.

We're made up of two companies with one shared culture: Bytes Software Services (Bytes), which supports corporate and public sector organisations, and Phoenix Software (Phoenix), focusing on the public sector.



Gross invoiced income¹**£1,439.3m**(2022: £1,208.1m) +**19.1%****Revenue²****£184.4m**(2022: £145.8m) +**26.5%****Adjusted operating profit³****£56.4m**(2022: £46.3m) +**21.8%****Gross profit****£129.6m**(2022: £107.4m) +**20.7%****Average gross profit per customer****£21,800**(2022: £20,100) +**8.5%****Employees****930**

(2022: 773)

Customers**5,941**

(2022: 5,330)

1 'Gross invoiced income' is a non-IFRS financial measure that reflects gross income billed to customers, adjusted for deferred and accrued revenue items. The reconciliation of gross invoiced income to revenue is set out in note 3(b) to the consolidated financial statements.

2 'Revenue' is reported in accordance with IFRS 15, Revenue from Contracts with Customers. Under this standard, the Group is required to exercise judgement to determine whether the Group is acting as principal or agent in performing its contractual obligations. Revenue in respect of contracts for which the Group is determined to be acting as an agent is recognised on a 'net' basis, i.e. the gross profit achieved on the contract and not the gross income billed to the customer. The 2022 figure for revenue has been restated due to a change in accounting policy under IFRS 15. This is explained further in our financial review and under note 1.6 to the consolidated financial statements.

3 'Adjusted operating profit' is a non-IFRS alternative performance measure that excludes from operating profit the effects of significant items of expenditure that are non-recurring events or do not reflect our underlying operations. Amortisation of acquired intangible assets and share-based payment charges are excluded. The reconciliation of adjusted operating profit to operating profit is set out in note 2(b) to the consolidated financial statements.

Chair's statement



Patrick De Smedt
Chair

Our people rose to the challenge again this year, delivering strong financial performance, serving our customers with distinction, and ensuring that we can look to the future with great confidence.

A collective effort

At the start of 2022/23, emerging from the global pandemic, we were all looking forward to a more normal year. But then, following uncertainty caused by the Russian invasion of Ukraine, higher inflation and interest rates emerged as new challenges for businesses and for our people. To continue achieving strong double-digit growth, despite these difficult times, is testament to the dedication and resilience of our people. The Board, and the company, remain focused on serving our customers, and I am pleased to see our high standards maintained this year, as evidenced by our impressive customer net promoter scores.

On behalf of the Board, I would like to express my appreciation to all our people for their achievements and hard work. I also want to thank Neil Murphy, our CEO, and the executive team for their leadership and our customers and vendors for their confidence and support. Our success as a company stems from this collective effort.

Shareholder dividends

BTG's dividend policy is to distribute 40% of post-tax pre-exceptional earnings to shareholders. Accordingly, the Board is pleased to propose a gross final dividend of 5.1 pence per share, equating to £12.2 million. Due to the company's continued strong performance and cash generation, we are also proposing a cash return to shareholders with a special dividend of 7.5 pence per share, equating to £18.0 million. If approved by shareholders, the final and special dividends will be paid on 4 August 2023.

“ Our people have passion, and a commitment to make a difference through their jobs. At the same time, they want it to be a fun place and to enjoy their work.

Listening to our people

For the Board, people and culture are a real focus, which is why we spend a lot of time listening. David Maw, our designated workforce engagement non-executive director, met with employees across all levels of the company, and gave the Board feedback, which was generally positive. The Board also had the opportunity to meet as a group with employees at the Phoenix offices in York. At the town hall-style meeting, attended by several hundred employees in person or virtually, I presented the role of the Board and our priorities. We then took questions about the evolution of the company, the challenges and the strategic investments we're making. It was a really enjoyable experience, and reaffirmed to me what makes our people so great. They have passion, a bias for action and a commitment to making a difference through their jobs. At the same time, they want it to be a fun place and to enjoy their work. We will have another town hall meeting in 2023, this time at the Bytes headquarters in Leatherhead.

Investing to support our growth

To support our growth, we've kept on expanding our workforce, increasing our headcount by 20%, a good achievement considering the strong competition for IT skills in the market. Our culture and strong record act as a beacon in attracting and retaining talented people. Compared to industry standards, our attrition rates remain relatively low. Our employee net promoter score of 70 remains high, and we will continue to work hard to ensure our culture is nurtured and maintained.

Our focus on sustainability

Beyond the short-term problems facing the world, climate change and protecting our natural resources remain the biggest challenges. At BTG, we are determined to be part of the solution, and I believe we are on the right track. Approving the launch of our sustainability framework and low-carbon action plan was an important focus for the Board in 2021/22, and I'm pleased to see that the team achieved the plan's

first milestone by reaching carbon neutral emissions, albeit through offsetting schemes that, at this stage, will play a much smaller role in our plan going forward. We've committed to cut our Scope 1 and 2 emissions – those we own or control directly – in half by 2026, from 2021 levels, along the road to achieving our net zero target by 2040. External environmental guidance, which started this year, will help us to drive our plans towards gaining recognition by the Science Based Targets initiative. As in previous years, our people have done excellent work in their communities, through volunteering and raising funds for good causes.

I'm very grateful for the wide range of talent and experience we have on the Board, and I'm particularly pleased that, with the appointment of Phoenix MD Sam Mudd to the Board at the conclusion of the 2023 AGM, we'll have 43% women on, going beyond the FTSE Women Leaders Review's recommendation of 40%. Sam is not our only prominent female leader in the business; we also have Clare Metcalfe as operations director in Phoenix, and Tina Sexton as finance director and Mandi Nicholson as sales operations director in Bytes. However, we still have more to do on gender equality, and developing and promoting women, and I've asked our two female Board members, Dr Erika Schraner and Dr Alison Vincent, who are both great role models, to help in this regard. I'm pleased to note that Phoenix came eighth in the Best Workplaces for Women category in the Great Place to Work awards.

Looking ahead with confidence

The terrible invasion of Ukraine, which has caused great suffering, shows no sign of ending. Closer to home, in the UK, we've had political and economic upheaval, adding to the sense of uncertainty. However, BTG is a resilient business that benefits from the technological tailwinds, whether it's migration to the cloud, cybersecurity or future developments in technology such as artificial intelligence. And our market share is still relatively small so there remains a lot of opportunity for growth. With such a strong management team and excellent talent across the entire business, the Board remains confident about the future prospects, and we look forward to another 12 months of progress.



Patrick De Smedt

Chair

22 May 2023

CEO's review

In uncertain times, trust is our greatest asset. Thanks to the confidence placed in us by our customers, our vendors and our people, it was another great year for our business. We extended our long track record of strong growth across our key metrics – and we've made the investments to make sure we keep providing the highest levels of customer service as we continue to expand.

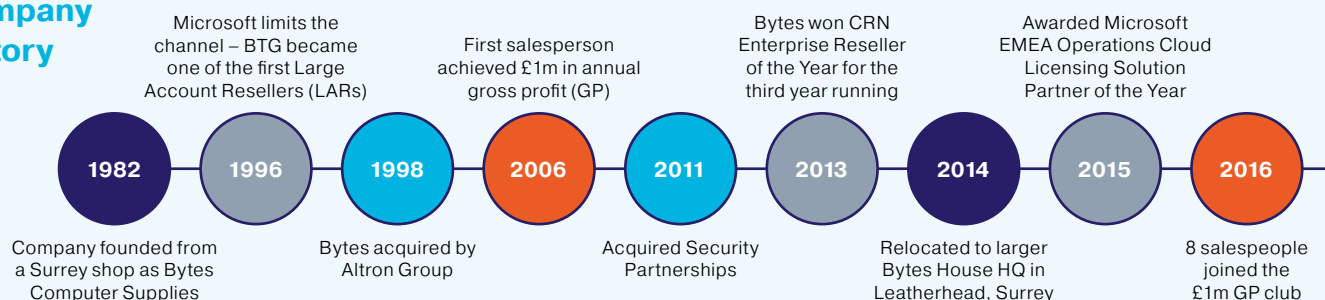
Ongoing growth despite economic headwinds

BTG achieved another set of solid results, with double-digit growth across all parts of our operations, from software to services and hardware. Gross invoiced income increased by 19.1% to £1,439.3 million, and we achieved adjusted operating profits of £56.4 million, up by 21.8%. Despite the tough macroeconomic environment, we saw an increase in the appetite to invest in IT in both the corporate and public sectors, enabling us to further strengthen our position in the market. We also broadened our range of vendors, expertise and services, especially in key areas such as cybersecurity and the cloud, at both Bytes and Phoenix. These



Neil Murphy
CEO

Company history



year-on-year improvements, alongside our continuity and dependability, have allowed us to further mature as a business, and to deliver on our promises to our partners, our people and our shareholders.

A trusted partner to our customers

We pride ourselves on our clear purpose and strategy, and at the heart of that is our laser focus on the customer, which has guided the business for four decades. The aim each year is to win new customers and capture a greater share of the IT spend of our existing ones. As we've done for many years now, we succeeded on both counts this year. Over the past 12 months we won more than 600 new customers, including North Yorkshire Council, Royal College of Nursing, SunChemical, One Savings Bank, Thakeham Homes and future_space, lifting our total number of customers to 5,941. We also grew our gross profit from existing customers by 16.0%.

I believe this ability to keep expanding our customer base while retaining our existing customers is closely linked to our willingness to look beyond short-term profits and to see the long-term picture. We want to give customers the right advice for their needs, even if it means they might initially go elsewhere or not buy from us now, or even next year. We know from experience, though, that customers will likely come back to us, because they know that we are acting in their best interest and will stand by them.

For us, that's the trust dividend. And it's especially important when times are tough, as they were for many of our customers in both the corporate and the public sectors this year. They were looking for ways to be more productive, efficient and secure, which means investing in technology. And they wanted to be guided and supported in this journey by a safe, reliable partner that would supply them with only what they needed, and so make best use of their resources. Our customer net promoter score of 77, up from 64 last year, is a good indicator that we are that trusted partner.

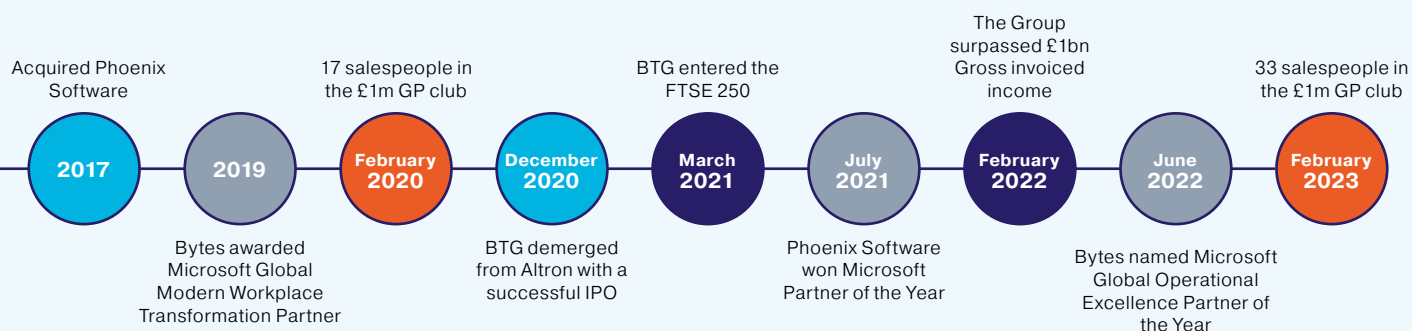
2022/23 highlights

- Bytes named as Microsoft's Partner for Operational Excellence 2022 globally
- Winning more than 600 new customers across the Group
- Welcoming nearly 300 new people into BTG
- Continuing our record of double-digit growth across all key metrics

Rewarding the trust of our people

It's also been a challenging year for families and society in general in the UK, due to the rising cost of household goods, and increasing energy prices and interest rates. Despite these pressures, our people have still been able to deliver great performances, whether they're working in the office or from home. I really admire and appreciate that. We recognised their contributions in numerous ways, including increased opportunities, benefits and, where appropriate, salaries.

But we know that cost-of-living increases have a bigger effect on people on lower incomes, so we've approved the highest pay rises, in percentage terms, for them, effective from 1 March 2023. It's really important to us, as a company, to show that we care about individual people, and this is one way of doing that. We're always trying to make sure we get the balance right between growing the business and looking after our employees, who've trusted us with their careers, which we want to be long and fulfilling. This year we launched our second Sharesave Plan, which was well received, broadening the range of employees who participate in our share schemes.



CEO's review continued

Our vendors' trust in us

Over the decades, we've successfully delivered thousands of solutions, building our credibility with the vendors whose products and services we supply. We partner with our vendors to get a better understanding of how we can add value to our customers' businesses, and we train our sales and technical people to become experts in their field, for example by becoming Microsoft certified. The strength of our vendor partnerships is evidenced by the awards our teams keep winning, which also reflect our status with global technology leaders. In 2021, Phoenix was chosen as Microsoft's UK Partner of the Year. This year, Bytes was named as Microsoft's Partner for Operational Excellence, from more than 3,900 global entries. This award recognised how we've supported our customers' digital transformation using Microsoft tools and automation. In addition, Phoenix was named Dell Technologies Public Sector Partner of the Year 2022 and, in the cybersecurity sector, Bytes won Mimecast Enterprise Growth Partner of the Year.

Investing in people and operations

Our biggest investment, as ever, has been in our people. We hire not for the current market but for where it will be in a few years, to give us time to equip our people with the right skills and expertise. This year our headcount grew by 20%, to 930. This included many people joining our graduate and

apprentice programmes at Bytes and Phoenix, who will further strengthen our sales, service and technical teams. We're very proud of our history of developing talent, and it ties into our aim of seeking to promote people from within wherever possible.

We've embraced hybrid working, but we know that there's a benefit to being together. We're trying to ensure that people enjoy coming into their office, and feel energised to do their best work there. That's why we've extensively refurbished our Bytes office in Leatherhead, with more collaborative working spaces and breakout areas, and a more open design.

Our new, in-house security operation centre, launched at the end of the last financial year, continues to grow. It's a 24/7 monitoring service that allows us to detect vulnerabilities or attacks in our customers' security and defences, and to alert them in real time. We expect the service to expand quickly in the coming years, especially for our public sector clients. We continued to invest in the 'multicloud' environment, in line with customers' requirements. By using the cloud systems from more than one vendor, organisations have more flexibility to control costs and optimise performance – all part of our commitment to give customers what they really need.

We've also been busy growing our geographical footprint in the UK, opening a new sales office in the City of London, which should open up new opportunities in the finance and insurance sectors.



“ I believe our ability to keep expanding our customer base is linked to our willingness to look beyond short-term profits, to the long-term picture.



“ We’re always mindful of getting the balance right between growing the business and looking after our staff, who’ve trusted us with their careers, which we want to be long and fulfilling.

Helping others and our environment

This year, our people continued our tradition of helping out in the community, and more widely, whether by using their paid volunteering day, which everyone is encouraged to take, or raising funds for the humanitarian crisis caused by Russia’s invasion of Ukraine, which has caused so much suffering.

As part of our commitment to achieve net zero by 2040 at the latest, we appointed our first sustainability manager this year. The aim is to help coordinate our sustainability efforts across Bytes and Phoenix, and to consolidate reporting, so we can measure our progress towards our goals more accurately.

Our gratitude to David Maw

After 23 years of valuable counsel, David Maw will step down from the Board in 2023. David brought a unique passion and energy to his role, and his curiosity and relentless quest for the facts enhanced our transparency and integrity. Under his watchful eye, we became a better Board, and a better company. On a personal level, David helped me develop my own sense of purpose and humility, and I will greatly miss him, as will the wider organisation.

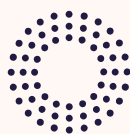


The road ahead

While being mindful of the pressures created by the macroeconomic environment, and the inherent uncertainties in the world, I strongly believe that whatever the future holds, tech will be part of it. I’m therefore confident that we will add more chapters to our growth story in the years to come, as organisations continue to digitise, move to the cloud and strengthen their resilience and security. This year, we will continue to expand our workforce in line with our business growth, and work with more vendors as we look to consolidate our position in a market where we still see many opportunities. And we’ll continue to provide a safe and rewarding environment for our people who, with our customers, are always our top priority.

Neil Murphy
CEO
22 May 2023

OUR CUSTOMERS Connected by trust



HOWARD
KENNEDY

A trusted advisor to our customers

Howard Kennedy is a London law firm specialising in legal advice for entrepreneurs and entrepreneurial businesses across the world.

When the firm wanted to review its security strategy with a focus on data, particularly customer data, Bytes was one of the 'trusted partners we brought in to help guide us along that journey,' explains Jonathan Freedman, Howard Kennedy's Head of Technology and Security. Bytes held workshops to identify what was needed to comply with the Center for Internet Security frameworks, which ensure the highest standards of cybersecurity, and proposed solutions based on the range of Microsoft technology that Howard Kennedy had already deployed.

'The team at Bytes have been very easy to work with,' says Jonathan. 'We've developed a very close relationship and have been able to really leverage the benefits of their experience. They've been able to bring in different experts with different specialities that have really contributed to our overall security strategy and helped us get to where we want to be.'

Adam McCaig, Head of Cybersecurity at Bytes, says: 'This partnership is a great example of how we are there to support customers with investment decisions, based both on commercial and technical considerations. This particularly matters in a crowded technological space like security, that is rapidly evolving.'

“

Working with Bytes has always been great. They understand exactly what our requirements are, and don't try to shoehorn in technology for the sake of it. And due to that we have really progressed with maturing our security.

Ryan Tate

Information Security Analyst, Howard Kennedy

A trusted partner to our customers

To become more sustainable and support its students' evolving learning needs, the University of Stirling has transformed into a digital campus that offers international opportunities and widens equal access to education.

When Phoenix started working with the university in 2019, it built out a five-year digital transformation roadmap to support the university to modernise its data centres and transition from a traditional on-premise model to a much more flexible and agile approach, ready for the future. 'The university wanted to take a step back and understand what a digital campus would mean to them,' says Craig Taylor, Cloud Solutions Director at Phoenix.

Recognising that its traditional data centres were no longer the best economic or environmental solutions, the university, with Phoenix's support, decided to migrate its systems to the cloud, using Microsoft Azure. This means it now has the capacity to adapt and move as quickly as the technology evolves, to enhance its students' access to education. 'It's not just about how students learn, it's about the world experience that we're trying to give them,' says Dr David Telford, Executive Director of Information Services at the University of Stirling. 'The technology is enabling that cultural interaction that gives them an understanding of what it might be like to engage or work in different locations.'

“

Making the right decisions based on the university's needs was key. Phoenix helped us achieve that, and also to make those decisions much quicker.

James Blair

Director of Development and Operations,
University of Stirling



**UNIVERSITY of
STIRLING**



Our market environment

The global macroeconomic outlook has dampened over the past year. But the fundamental importance of technology to the future is unchanged, and the IT sector is set to continue growing as organisations invest to improve their productivity, enhance security and save money.

Main trends shaping UK technology

Digitalisation

Organisations are choosing digital technology to improve their operations and create efficiencies.

The move to the cloud

Switching from physical to internet-based software offers more flexibility, scope for analytics and sustainable credentials.

Cybersecurity

As online attacks – and the risk of breaking privacy laws – increase, so does the need for multi-layered protection.

Cost optimisation

Inflation-linked vendor price rises and other economic pressures mean customers are looking for greater value.

Investment in technology projected to keep rising

As individuals, our dependence on tech has never been greater – and the same is true for organisations. In recent years, this has led to increased spending on IT, and digital technology in particular. Despite the tough economic conditions, the trend is projected to continue for the foreseeable future. 'IT spending remains recession-proof,' noted the research firm Gartner, which expects global tech spending to rise to \$4.5 trillion in 2023, up from \$4.4 trillion in 2022, despite lower sales of devices.¹ For the UK, predictions are similarly positive for next year, and beyond. According to Grand View Research, a market intelligence firm, the digital transformation sector, which includes cloud computing, machine learning and the internet of things, is expected to expand in the UK from \$29.4 billion in 2022 to \$146.6 billion in 2030, a compound annual growth rate of 22.2%.²

Our target segments

Software (93%)

We sell cloud software, which is accessed and consumed online on a subscription basis, as well as on-premise software installed on customers' own networks, under annuity-based licences.

IT services (4%)

These include IT-managed services around a wide range of vendor technologies, including 24/7 support for critical security offerings, as well as software asset management services and project-orientated consulting services such as IT deployment assistance, cloud migrations and software cost optimisation.

Hardware (3%)

We sell a wide range of hardware, including desktops, monitors, mobile phones, servers and networking equipment.

\$219bn

projected UK IT spending in 2023³

6.1%

projected growth in enterprise software spending in the UK in 2023

77%

increase in cyberattacks in the UK in 2022

22.2%

projected compound annual growth rate in the UK digital transformation sector from 2022 to 2030

\$146.6bn

value of the UK digital transformation market by 2030

“ Consumers and enterprises are facing very different economic realities. While inflation is devastating consumer markets, contributing to lay-offs at B2C companies, enterprises continue to increase spending on digital business initiatives.

Gartner¹

Software and IT services lead the way

According to Gartner, the two fastest-growing tech sectors globally in 2023 will be software and IT services – BTG’s main business areas. In the UK, revenue from enterprise software, which is mainly cloud-based, is projected to grow by 6.1% annually, between 2023 and 2027, the research company Statista said.⁴ IT services will increase by 6.7% a year over the same period.⁵ Within these categories, cloud computing and cybersecurity are expected to show especially strong growth.^{6,7} Check Point Research found that global cyberattacks reached an all-time high in the last quarter of 2022, with an average of 1,168 weekly attacks per organisation. The UK saw a 77% increase in cyberattacks in 2022.⁸

Customers focus on value and flexibility

While the economic pressures have not prompted organisations to cut their IT budgets, they are seeking more value for money. This means projects are taking longer to get approval, extending the sales cycle. For well-run, reputable technology companies, however, the demand for value creates opportunities to win new customers. A desire for flexibility is another key trend. Instead of investing in physical infrastructure for IT, organisations are spending on cloud services, where the costs are variable. Similarly, rather than hiring more IT staff to manage the increasingly complex tech, they are spending on services with their technology partners, like BTG. The strong demand for tech talent is a challenge across the industry, and we are not immune from it, which is why we are investing in training and development.



Our position in the UK tech sector

BTG is one of the UK’s leading value-added resellers (VARs). We sell IT products from a broad range of technology vendors to corporate and public sector organisations. Our potential market is large. UK business-to-business customers buy around 63% of their technology products from VARs and other resellers and distributors. Currently, our share of the UK VAR sector is still in single digits. And because no single company dominates the market, we have a lot of room to expand.

For vendors, selling through companies like ours, rather than directly to customers, offers significant advantages. We can promote their products using our skilled salesforce, market to thousands of customers, advise on latest customer requirements and work on promotional campaigns with them. The vendor partnerships also benefit our customers, because the discounts and rebates we receive from them enable us to charge lower prices. This saves money for our customers and deepens our relationships with them.

All data correct at 28 February 2023.

- 1 [gartner.com/en/newsroom/press-releases/2023-01-18-gartner-forecasts-worldwide-it-spending-to-grow-2-percent-in-2023](https://www.gartner.com/en/newsroom/press-releases/2023-01-18-gartner-forecasts-worldwide-it-spending-to-grow-2-percent-in-2023)
- 2 [grandviewresearch.com/industry-analysis/uk-digital-transformation-market-report](https://www.grandviewresearch.com/industry-analysis/uk-digital-transformation-market-report)
- 3 [gartner.com/en/newsroom/press-releases/2022-11-09-gartner-forecasts-it-spending-in-emea-to-grow-3-percent-in-2023](https://www.gartner.com/en/newsroom/press-releases/2022-11-09-gartner-forecasts-it-spending-in-emea-to-grow-3-percent-in-2023)
- 4 [statista.com/outlook/tmo/software/enterprise-software/united-kingdom](https://www.statista.com/outlook/tmo/software/enterprise-software/united-kingdom)
- 5 [statista.com/outlook/tmo/it-services/united-kingdom](https://www.statista.com/outlook/tmo/it-services/united-kingdom)
- 6 [statista.com/outlook/tmo/public-cloud/united-kingdom](https://www.statista.com/outlook/tmo/public-cloud/united-kingdom)
- 7 [statista.com/outlook/tmo/cybersecurity/united-kingdom](https://www.statista.com/outlook/tmo/cybersecurity/united-kingdom)
- 8 blog.checkpoint.com/2023/01/05/38-increase-in-2022-global-cyberattacks/

Our business model

Our proven strategy and can-do culture, supported by our values and purpose, allows us to build lasting, mutually beneficial partnerships with our employees, customers and vendors.

Our strategy

We aim to grow organically by winning new customers and increasing our business with existing ones. We will complement this approach with carefully selected acquisitions to boost our future value when appropriate opportunities arise. This strategy has delivered double-digit growth every year for more than a decade.

What we do

We're a value-added IT reseller, focusing on cloud and security software developed by leading vendors. We also provide professional and managed IT services, and hardware, in order to deliver complete tailored solutions.

Our values

Be passionate about our employees, vendors and customers.
Act with integrity at all times.
Work together and collaborate across all teams.
Be kind and respectful to all people, all of the time.
Get business done and have fun doing it.

Our agile organisation

Bytes Technology Group

Our lean corporate centre provides support and direction on finance, governance, legal, compliance and sustainability matters to our two independent and complementary operating companies, which both focus on software, IT services and hardware.



Bytes Software Services

Serving corporate enterprise clients, small to medium-sized businesses and public sector customers.



Phoenix Software

Mainly serving public sector customers.

Our purpose

We empower and inspire our people to fulfil their potential, so they can help our customers make smarter buying decisions and meet their business objectives through technology.

Our drivers

An evolving portfolio of products that customers want to buy.

Our broad network of IT vendor partners.

Long-standing, trust-based relationships with customers, who often recommend us.

Investment in engaged, expert employees with whom customers enjoy working.

A dynamic, customer-focused culture where people can thrive.

Expansion

In considering acquisitions, we prefer strategic bolt-on opportunities, rather than ones that need to be integrated into our existing operations. This suits our existing group structure and aligns with Bytes and Phoenix, which operate largely autonomously. That said, if we identified a promising integration opportunity that would accelerate our growth, we would consider it.

Stakeholder benefits

Strong financial performance that rewards all stakeholders.

Satisfied customers, many of whom stay with BTG year on year.

Fulfilled, engaged employees.

Stronger communities.

A healthier planet.

Measured by key performance indicators

Financial
Strategic
Sustainability

Our strategy

We aim to grow organically by **winning new customers and doing more for existing customers**. We will complement this approach, as appropriate, with carefully selected acquisitions that boost our value.

Our strategy is rooted firmly in our compelling values and our purpose to 'empower and inspire our people to fulfil their potential, so they can help our customers make smarter buying decisions and meet their business objectives through technology'. Underpinning this foundation are our long-standing, trust-based relationships with our customers and vendors, our investment in our people, and our dynamic, customer-focused culture. Our strategy is linked to, and measured by, our key performance indicators.

“ We help our customers find innovative ways to use technology to improve the way they work, save money and deliver a better service to their own clients.

Winning new customers

5,941 customers, up from 5,330 in 2022

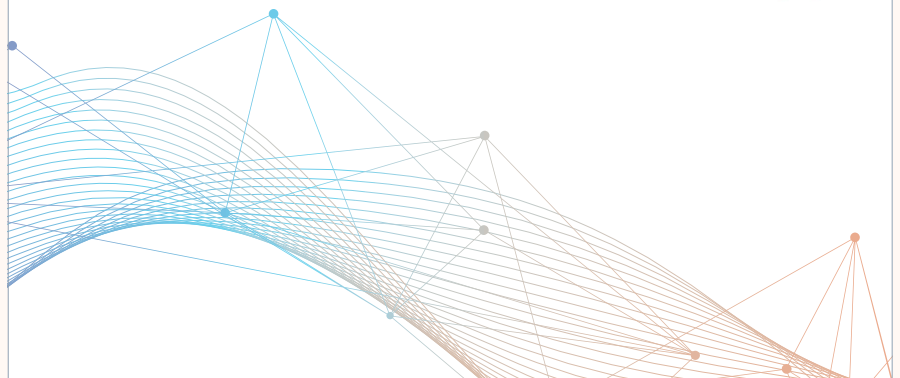
New customers include



Do more for existing customers

More than £17m additional gross profit generated from existing customers

Customers who asked us to do more included



We pursue our strategy by focusing on three key areas: **putting customers first, investing in our people and our business, and investing in innovation.**



Putting customers first

We put our customers first in all we do. We help them find innovative ways to use technology to improve the way they work, save money and deliver a better service to their own clients.

This means we:

- Give them impartial, expert advice for their needs based on our knowledge of the leading products and services of hundreds of different vendors
- Aim to exceed customer expectations, always. We see ourselves as part of their team
- Keep up with the latest standards and technologies to meet customers' evolving preferences.

This year:

We increased the number of our customers and the amount of work we did for existing ones. A strong measure of the satisfaction of our customers is that many highly recommend us, with our customer net promoter score (NPS) increasing from 64 to 77, high by industry standards. And, with climate change high on the corporate agenda, we're seeing more customers turning to technology to help them reduce carbon emissions, and identify, monitor and manage their risks.

Investing in our people and our business

Our people are essential to our success: we need to retain our exceptional employees to continue to sell effectively, and we need to keep increasing our headcount to meet our growth ambitions.

This means we:

- Work continuously to develop our people and keep them engaged and fulfilled
- Maintain a dynamic, fun and supportive culture
- Remain alert for potential acquisitions that would complement our offering and support our strategy.



This year:

We increased our headcount by 20%, expanded our training and development programmes, and increased salaries, mindful of helping our people with the higher cost of living. Staff turnover was low and employee satisfaction high, with an employee NPS of 70.

Investing in innovation

The world is changing fast from advances in cybersecurity and artificial intelligence and technology is changing with it. We invest in innovation to help our customers stay ahead of the pace of change.

This means we:

- Study market trends and develop innovative IT solutions that meet customers' evolving needs and help them update or supplement their technology
- Invest in our technical capabilities to be able to give the best support
- Advance our expertise by partnering with specialist providers, updating our training and hiring employees with specific skills.



This year:

Our new security operations centre, launched at the end of the last financial year, continued to grow. We kept investing in the 'multicloud' environment, and rolled out the latest Microsoft hybrid working tools internally, to improve our own ways of working and our knowledge of the technology.

Our strategy works because we focus relentlessly on:

- Selling – and being experts in – great value, innovative IT products and services that customers need
- Identifying and targeting those customers
- Being straightforward – and enjoyable – to do business with.

Key performance indicators

Financial

Gross invoiced income (GII)¹

£1,439.3m +19.1%
(2022: £1,208.1m)

Revenue^{3, 4}

£184.4m +26.5%
(2022: £145.8m)

Cash

£73.0m +8.8%
(2022: £67.1m)

Gross profit

£129.6m +20.7%
(2022: £107.4m)

Gross margin⁴

70.3%
(2022: 73.7%)

Cash conversion⁵

84.3%
(2022: 131.9%)

Adjusted operating profit (AOP)²

£56.4m +21.8%
(2022: £46.3m)

Operating profit

£50.9m +20.6%
(2022: £42.2m)

AOP as a % of gross profit

43.5%
(2022: 43.1%)

Strategic

Customer numbers

5,941 +11.5%
(2022: 5,330)

Average GP per customer

£21,800 +8.5%
(2022: £20,100)

Renewal rate

116%
(2022: 111%)

Customer net promoter score

77
(2022: 64)

% GP from existing customers

96%
(2022: 93%)

Sustainability

Employee numbers

930 +20.3%
(2022: 773)

Employee net promoter score

70
(2022: 69)

As part of our ongoing commitment to support positive change in our environment and communities where we operate, we continue to make contributions in various ways to corporate social responsibility activities.

¹ 'Gross invoiced income' is a non-IFRS financial measure that reflects gross income billed to customers, adjusted for deferred and accrued revenue items. The reconciliation of gross invoiced income to revenue is set out in note 3(b) to the consolidated financial statements.

² 'Adjusted operating profit' is a non-IFRS alternative performance measure that excludes from operating profit the effects of significant items of expenditure which are non-recurring events or do not reflect our underlying operations. IPO costs, amortisation of acquired intangible assets and share-based payment charges are all excluded. The reconciliation of adjusted operating profit to operating profit is set out in note 2(b) to the consolidated financial statements.

³ 'Revenue' is reported in accordance with IFRS 15, Revenue from Contracts with Customers. Under this standard, the Group is required to exercise judgement to determine whether the Group is acting as principal or agent in performing its contractual obligations. Revenue in respect of contracts for which the Group is determined to be acting as an agent is recognised on a 'net' basis, i.e. the gross profit achieved on the contract and not the gross income billed to the customer.

⁴ The 2022 figures for revenue and gross margin have been restated due to a change in accounting policy under IFRS 15. This is explained further in our financial review and under note 1.6 to the consolidated financial statements.

⁵ 'Cash conversion' is a non-IFRS alternative performance measure that divides cash generated from operations, excluding IPO costs and less capital expenditure (together, 'free cash flow'), by adjusted operating profit.

Review of the year

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CFO's introduction

We've had another 12 months of consistent growth, thanks to the building blocks put in place in previous years. We always try to invest ahead of the technology curve, anticipating where the market will be and ensuring that we have the skills and resources to serve it.



Andrew Holden
CFO

I'm extremely pleased that through our efforts in 2022/23 we were able to increase our gross invoiced income by 19.1% to £1,439.3 million and our gross profit by 20.7% to £129.6 million on 2021/22, in line with our strategy. Adjusted operating profit rose by 21.8% to £56.4 million and we ended the year with strong cash conversion at 84.3%.

Our customer focus

At BTG, our focus on the customer comprises three things. The first is our relations with them: staying close, interacting with them as a trusted advisor and providing the best possible service. That's paramount to our success, and is measured by our customer net promoter score. The next element is about trying to do more with each customer, and in 2022/23 we achieved this, with gross profit from existing customers increasing by 16%, around 96% of our total gross profit, slightly more than in the previous year. Finally, it's about actively seeking new customers, and again we did well, with the net number of customers served rising by 11.5%, to 5,941.

All areas of the business – software, services and hardware – experienced robust sales growth, reflected in our gross profit increase of 20.7% and our GP/GII ratio rising to 9.0%, which is extremely pleasing under difficult economic conditions. In the corporate sector, we grew gross profit by 19.6%, and in the public sector by 22.7%. We maintained our disciplined approach to cost management and operating efficiency, as reflected by our strong AOP/GP ratio of 43.5%.

External uncertainty, internal stability

The 2022/23 year has been marked by inflation, with big effects on the cost of living, energy prices and wages. Unstable national leadership, and the invasion of Ukraine, have exacerbated the uncertainties. We continue to review our remuneration policies and, for our salary increases, effective 1 March 2023, we approved the highest pay rises for people on lower incomes, who are most affected by pricing pressures.

We continually monitor the macroeconomic situation to assess the effect on our business but, fortunately, the favourable conditions in our market space remained largely unchanged this year. Demand for technology has remained robust across all areas of our customer base, as organisations look to increase their efficiency and security. We also benefit from our diverse range of customers, across industries and in



“ We always try to do more with each customer, and in 2022/23 we achieved this, with gross profit from existing customers increasing by 16%.

the corporate and public sectors, which cushion us from downturns in most areas. And because we have so many customers, each representing only a small part of our business, the loss of any one has a limited effect on overall profits. We also haven't been directly affected by higher interest rates because we remain debt-free.

What hybrid working means for our performance

At the start of the Covid-19 pandemic, when people had to work from home, many businesses refreshed their hardware. We're now at a point in the cycle where those purchases aren't being repeated – but, because software accounts for 94% of our business, in profit terms, we haven't had to contend with this downward cycle. Indeed, our hardware GII sales increased by 33.0%, albeit from a small base. And turning to internal costs, embracing hybrid working has had positive implications for costs. Our marketing and entertaining costs have not returned to pre-Covid levels, and we don't expect that they will in future.

Investing for the future

One of our main priorities this year was ensuring we have the right level of staff and the correct skill sets that we need for 2023 and beyond. We've done that, increasing our headcount by 157 to 930. This included investing in our sales teams, and across all parts of the business, including support roles, as we scale our business in line with our strong recent growth. We also broadened our training programmes to make sure we're staying up to date with developments in technology.

In April 2023, we acquired a 25.1% interest in AWS partner, Cloud Bridge Technologies. As a long-term partner of Bytes, Cloud Bridge and its significant technical work force gives us additional access to resources which will underpin our multicloud strategy over the years to come.

We've invested in our workspaces and our people beyond our main offices in Leatherhead and Pocklington. We opened a new office in London in March 2023, and strengthened our teams in Reading and Manchester. This will expand our access to potential employees, and bring us closer to existing and new customers.

Looking ahead

At the core of our success is our culture. As we continue to hire more people in line with our business growth, we're working very hard to ensure that we maintain our culture, and keep our staff engaged. I'm confident that we will, and that the investments we've made in recent years, along with the positive trends in the market, will enable us to continue to grow in the year ahead.

A handwritten signature in black ink, appearing to read 'A Holden'.

Andrew Holden
CFO
22 May 2023

Operational review

We are made up of two companies that have one culture and share knowledge and expertise. The businesses also share a deep commitment to our people and our trusted business partners – our customers and our vendors. It's a formula that works: both Bytes and Phoenix performed strongly in 2022/23, as we increased our customer numbers, services, headcount and gross profit.

Bytes key facts



Employees	Customers	Headquarters	Managing director
552	3,456	Leatherhead, Surrey	Jack Watson, since 2021

Markets

Corporate and public sectors across a broad range of industries, including professional services, manufacturing, retail, central and local government, and technology, media and telecoms.

Vendors

Main partners – Microsoft, Check Point, Mimecast, Adobe, AWS, Darktrace, Palo Alto and Security HQ.

“ We sell technology and services but what we really do is help our customers to become more efficient organisations across a range of areas, from the employee experience to security and financial resilience.

Jack Watson
MD Bytes



Phoenix key facts



Employees	Customers	Headquarters	Managing director
373	2,485	Pocklington, Yorkshire	Sam Mudd, since 2014

Markets

Mostly public sector, across a wide range of areas, including central and local government, charities, education, emergency services, healthcare and housing. Its own License Dashboard offering has clients in the US and Canada.

Vendors

Main partners – Microsoft, VMWare, Dell, Adobe, Sophos, Citrix, Mimecast and Rubrik.

“ I'm incredibly proud of what our teams have achieved. We've had excellent growth in a tumultuous year, and continued to invest to stay ahead of the technology curve.

Sam Mudd
MD Phoenix



Robust demand for cloud and security products and services

Continuing the trend of recent years, growth at Bytes and Phoenix was especially strong in the following areas:

- **Security.** The increased risk and sophistication of cyberattacks means that organisations need to continually strengthen and upgrade their IT defences. The newest products offer additional layers of protection and are usually complementary to existing ones, rather than replacing them.
- **Cloud-based solutions.** The migration to the cloud continues, but the focus is now shifting to cost control, advanced analytics and AI, which is about optimising what organisations can do with their data.
- **Subscription software.** This is now more common than traditional life-long software, which requires upfront payment, and provides more predictable income streams.
- **IT services.** As technology becomes more complex, demand is growing for expert support.

Investing in people and operations

As our businesses expand, we're bringing in more people and equipping them with the skills to maintain our high levels of customer service – and maintaining our culture as we grow. Bytes increased headcount by 21% to 552 people, and improved benefits to help attract and retain staff. Phoenix's headcount also jumped 19%, to 373 people and it was particularly pleasing that 18 of Phoenix's new joiners were from existing staff referrals. Training and development programmes were expanded. Bytes first introduced a sales academy over 15 years ago, hiring graduates and people who were changing careers to create a pipeline of talent. The concept has been extremely successful and, as part of sharing good practices across the operating companies, a sales academy was established at Phoenix, with the first intake graduating this year. In a similar way, apprenticeship schemes at Bytes and Phoenix ensure that their technical and service teams keep growing. (For more, see Our people on page 36.)

Improving the world of hybrid work

Since the pandemic, organisations have been reimagining the world of hybrid work and, through the lens of technology, Bytes and Phoenix have been assisting them to make life better for their employees. But the two businesses, which have embraced hybrid working, have been looking at how to make it work better for our own people as well. We keep up with the latest releases in software to take advantage of the newest functions, including tools for collaboration, that are designed to improve hybrid work. Bytes has also refurbished the Leatherhead office to promote productivity and creativity and increase the levels of collaboration.

Sharing knowledge and expertise

Though our two businesses operate independently, we deliberately and actively share expertise and learning for the overall benefit of the Group. The two MDs, Phoenix's Sam Mudd and Jack Watson at Bytes, meet every month during our executive committee meeting, and the chief technology officers of each business also hold regular meetings. Among other things, the businesses worked together to better align their sustainability programmes, to share experiences of recruiting in a competitive market and on the Great Place to Work certification for Bytes, a process Phoenix had been through already. This year Bytes started offering the License Dashboard asset management tool to its customers, something Phoenix has done with success. And for the refurbishment of the Bytes headquarters, we used the same design company that converted an old warehouse into a sales hub for Phoenix, to ensure a similar workplace experience.

Bytes and Phoenix share

- BTG's values, strategic ambitions, governance structures
- Insights and good practice
- Industry-leading skills
- Can-do culture
- Representation and engagement in Group Executive Committee and steering committees
- Comparable products and services.

And both businesses have their own

- Identities
- Management teams
- Individual but complementary routes to market
- Customer bases and markets
- Offices.

Operational review continued

Winning new customers and doing more with existing ones

Our close customer relationships in the corporate and public sectors have always been integral to our success. We track our progress using three key metrics: our customer numbers, our share of their business and our customer net promoter score (NPS).

“ We are winning larger, more complex, and ultimately more profitable service projects than ever before.

Sam Mudd
MD Phoenix

Our progress in 2022/23

In line with our strategy of winning new customers and expanding our business with existing ones, we:

Transacted with more customers



At Phoenix, customer numbers rose from 2,258 to 2,485, with new public sector customers including Royal College of Nursing and Canal & Rivers Trust and, in the corporate sector, Link Scheme and Sun Chemical. The North Yorkshire Council consolidation project, which will span several years, is the biggest in Phoenix's history (see case study right). Bytes expanded its customer base by 12.5%, from 3,072 to 3,456, including new ones such as One Savings Bank and future_space.

Increased our renewal rate



This metric tracks the increase in our business with existing customers, from 111% to 116%. Bytes did more business with established customers such as St. James's Wealth Management and Vocalink Mastercard and Phoenix with NHS Camden and Islington, and City of London. At a Group level, we saw an 8.5% increase in the gross profit per customer.

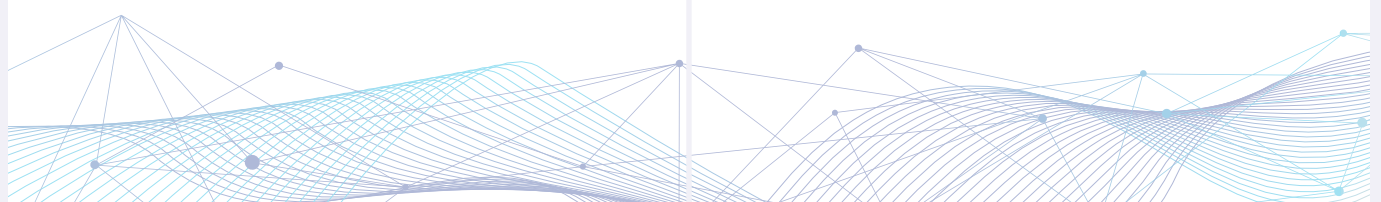
Improved our NPS



The score measures the likelihood of our customers recommending us to others, and can range from -100 to +100.

Trusted partners

Though we see ourselves as partners to our customers, the IT marketplace is competitive, and we know they are not tied to us. That's why we are not heavily dependent on specific customers. In 2022/23, no single customer represented more than 1.5% of our gross profit.





How we build trust with our customers

We are dedicated to helping our customers use technology to improve their businesses. It's about a lot more than just efficiency; we also want to save them money, and make them more secure as cyberattacks increase and more sustainable in a warming world. Our customers choose Bytes and Phoenix, and stay with us, because:

- **We always act in their best interest.** We don't sell the customers what we want, we provide what they need.
- **We understand their business.** Our people are experts in a broad range of the latest technology. Equally importantly, they're experts in their customers, because we give them the time to really understand each customer and the customer's industry.
- **Of our continuity and friendly, can-do culture.** Given our relatively high staff retention rates, our customers often deal with the same account manager and team, year after year. We propose solutions to problems and bring a positive attitude.
- **Of our commitment to excellence and honesty.** We always aim to exceed our customers' expectations, but if we don't, or make a mistake, we're honest about it, and try to fix it quickly.
- **We support the wider communities.** For many of our customers, especially in the public sector, we go beyond the scope of the project with social value offerings, for the benefit of local communities.

Case study

Helping local government in North Yorkshire to transform

Craig Taylor, Cloud Solutions Director, talks about how Phoenix is supporting North Yorkshire Council.

'On 1 April 2023, the county council and seven district and borough councils in North Yorkshire became one, as North Yorkshire Council, covering the largest geographic area of any council in the UK. We've been a long-term supplier to many of the councils, and in 2022 we were engaged to bring together all the councils' Microsoft environments into one.

The work started in August and involved the discovery, design and implementation of the new single environment, and migration of data where required. In the next phase, expected to last a number of years, we will ensure that the new council's joined-up systems operate effectively, and continue to transform with Microsoft technology. By delivering public sector transformation at pace, in complex environments, we have set the foundation to support other local authorities that are consolidating. Already, the North Yorkshire Council work has enabled us to win similar projects involving local government reorganisations.'

“ We are seeing a huge growth in the area of security, in terms of sales and the diversity of technology from vendors to provide multi-layered protection against the latest threats.

Jack Watson
MD Bytes

OUR VENDORS Connected by trust



Microsoft

A trusted partner to our vendors

Microsoft has been at the heart of Bytes's business for more than 40 years.

Today, as a Microsoft Solutions and Managed Services provider, Bytes helps commercial and public sector organisations to achieve their goals and modernise using Microsoft technology. Bytes deploys a full range of Microsoft products and solutions, from Microsoft 365 to the Azure cloud platform. Bytes also provides other Microsoft-related services, including licensing, optimisation, consultancy and software asset management. More than 150 Bytes employees are qualified as Microsoft Certified Professionals and Microsoft Certified Technology Specialists.

The close working relationship, as part of which Bytes and Microsoft teams meet every fortnight, is evidenced by Bytes being named as Microsoft Partner of the Year for Operational Excellence, from more than 3,900 partner entries globally, in 2022. The award was in recognition of Bytes supporting its customers with digital and business transformation through the adoption of cloud services and technology. For its part, Microsoft benefits from the knowledge accumulated by Bytes through its long customer relationships, and relationships with mutual customers. Microsoft regularly asks Bytes to give feedback on new or trial programmes, and refers business to Bytes, based on its strong track record and capabilities.

“

Bytes is an important strategic services partner for Microsoft in the UK. In an industry that's forever changing, Bytes's ability to pivot to support customers' needs is evident both in its longevity and market-leading growth. Our partnership is built on trust and transparency.

Steven Granston

Senior Partner Development Manager, Microsoft

Dell Technologies is a leading US company that provides software, hardware and IT solutions.

Phoenix has worked with Dell for around 15 years, and designs, deploys and supports almost all of Dell's products and services. It specialises in putting together server, storage, networking, backup and security solutions that allow customers to modernise their datacentres. The strength of the partnership is illustrated by Phoenix being named as Dell Technologies Public Sector Partner of the Year, UK, for 2022. Dell supports Phoenix through a team that includes account managers, technical engineers and senior executives, with weekly calls and fortnightly in-person meetings.

For its part, Dell benefits from the knowledge and experience of Phoenix experts, who make regular presentations to Dell demonstrating solutions they've offered to customers, and exploring new areas for collaboration. Senior Phoenix staff also meet regularly with top Dell executives and, at an event this year, Phoenix MD Sam Mudd was invited to sit with Michael Dell, the company's founder, CEO and Chair. 'Our culture of openness, honesty and accountability and the accessibility of our leadership team assures Dell that they have our full support as a key vendor partner,' says Vicki Sammons, Solutions Manager at Phoenix.

“

Phoenix is very professional, competent and extremely well connected throughout the public sector. We value the relationship so much because there is always trust, integrity and open communication during any sales opportunity.

Stephen Scholey

Partner Account Manager, Dell Technologies



PHOENIX



DELL



Operational review continued

Strengthening our vendor partnerships

Across BTG, we have more than 100 vendors who make or distribute the software, hardware and other IT products that we sell. Some have been with us for several decades, including Microsoft, our biggest partner. Others are new, and work in cutting-edge areas like artificial intelligence.

In 2022/23, Bytes saw a strong increase in sales and profits from its suite of Microsoft products and services, in particular Microsoft 365 and the Azure cloud platform, with the continued shift to cloud-based systems fuelling strong customer demand. Bytes also grew the AWS cloud business, and, for security, Check Point and Mimecast sales. At Phoenix, besides the main vendor partners, software solutions from Rubrik, Barracuda, Quest and Bitdefender all performed strongly in 2022/23.

Awards in 2022/23

Bytes

Microsoft Partner of the Year for Operational Excellence 2022

“ This achievement highlights your truly exceptional work in delivering solutions built on the Microsoft Cloud and platform – solutions that have a positive impact on our mutual customers across the globe.

Phoenix

Quest Partner of the Year 2023

Great Places to Work – 6th in UK Best Workplaces in Tech List

Great Places to Work – 7th in UK Best Workplaces (Large Organisations)

Great Places to Work – 8th in UK Best Workplaces for Women List

CRN Tech Impact Award for 2022 – Sustainable Solution/Service of the Year

Why our vendors trust us

We're independent of the vendors whose products we sell, so we're impartial when making recommendations to our customers. At the same time, we consider the vendors to be our partners, and we work hand-in-hand with them to deliver the best results for our customers. Vendors want to work with Bytes and Phoenix because we:

- **Continually invest in training and development.** That means we can promote our vendors' products with knowledge and skill. And if we don't have the right expertise in the business, we hire people who do.
- **Act with integrity.** We don't commit to vendor partnerships until we've done our due diligence and know that we have the technical delivery capability, and the market to make it worthwhile. Then we deliver on time, against the plan.
- **Collaborate with them.** By hosting seminars and events that bring together representatives of leading vendors, we strengthen our mutual understanding of the challenges faced by customers, and the technologies that can help.
- **Have a strong record of growth.** Vendors can see where we've come from – and where we're going – and want to align with that.

Some of our top vendors:



Financial review

How we performed in 2022/23

	2022/23 £'m	2021/22 ³ Restated £'m	Change %
Income statement			
Gross invoiced income (GII)	1,439.3	1,208.1	19.1%
GII split by product:			
Software	1,346.1	1,136.0	18.5%
Hardware	38.3	28.8	33.0%
Services internal ¹	28.5	21.8	30.7%
Services external ²	26.4	21.5	22.8%
Netting adjustment³	(1,254.9)	(1,062.3)	18.1%
Revenue³	184.4	145.8	26.5%
Revenue split by product:			
Software	114.1	91.6	24.6%
Hardware	38.3	28.8	33.0%
Services internal ¹	28.5	21.8	30.7%
Services external ²	3.5	3.6	(2.8)%
Gross profit (GP)	129.6	107.4	20.7%
Gross profit/GII%	9.0%	8.9%	
Gross margin % ³	70.3%	73.7%	
Administrative expenses	78.7	65.2	20.7%
Administrative expenses split:			
Employee costs	63.3	53.5	18.3%
Other administrative expenses	15.4	11.7	31.6%
Operating profit	50.9	42.2	20.6%
Add back:			
Share-based payments	4.2	2.5	68.0%
Amortisation of acquired intangible assets	1.3	1.6	(18.8)%
Adjusted operating profit (AOP)	56.4	46.3	21.8%
Finance costs	(0.5)	(0.6)	(16.7)%
Profit before tax	50.4	41.6	21.2%
Income tax expense	(10.0)	(8.7)	14.9%
Effective tax rate	19.9%	20.7%	
Profit after tax	40.4	32.9	22.8%

¹ Provision of services to customers using the Group's own internal resources.

² Provision of services to customers using third party contractors.

³ The prior year comparative is restated as discussed in the revenue section below.

How we performed in 2022/23 continued

Overview of FY23 results

FY23 has seen continued double-digit growth across all our key performance measures, reinforcing the strong start the Group has made since listing at the end of 2020. As the country and the economy have emerged from the Covid-19 restrictions imposed three years ago, we have seen the new ways of working with our customers and partners continue, which has enabled us to expand and evolve our offerings further in FY23.

With hybrid working now widespread across our whole customer base, and heightened requirements around cybersecurity, customers have continued to engage with us to support their move into the cloud, or extending their presence in it, with more sophisticated and resilient security, support, and managed service solutions. This has resulted in operating profit increasing by 20.6% to £50.9 million (FY22: £42.2 million) and adjusted operating profit growing by a slighter higher 21.8% year on year from £46.3 million to £56.4 million. The AOP excludes the impact of amortisation of acquired intangible assets and share-based payment charges which do not reflect the underlying day-to-day performance of the Group.

Gross invoiced income, revenue and gross profit

Gross invoiced income (GII)

GII reflects gross income billed to our customers, with some small adjustments for deferred and accrued items (mainly relating to managed service contracts where the income is recognised over time). We believe that GII is the most useful measure to evaluate our sales performance, volume of transactions and rate of growth. GII has a direct influence on our movements in working capital, reflects our risks and demonstrates the performance of our sales teams. Therefore, it is the income measure which is most recognisable amongst our staff, and we believe most relevant to our customers, suppliers, investors, and shareholders for them to understand our business.

GII has increased by 19.1% year on year, with growth spread across all areas of the business, software, services, and hardware. Software remains the core focus, contributing a consistent 94% of the total GII in both the current year and prior year. The Group benefits from a substantial presence in the public sector, with continued high levels of government investment in IT technologies resulting in our public sector GII increasing by £130.0 million, up 17.9%, to £856.6 million (FY22: £726.6 million). Our corporate GII increased by £101.2 million to £582.7 million (FY22: £481.5 million), representing an even stronger rise of 21.0%.

This means that our overall GII mix has remained consistent with last year at 60% in public sector against corporate of 40%.

Revenue

Revenue is reported in accordance with IFRS 15 Revenue from Contracts with Customers. Under this reporting standard, we are required to exercise judgment to determine whether the Group is acting as principal or agent in performing its contractual obligations. Revenue in respect of contracts for which the Group is determined to be acting as an agent is recognised on a 'net'

basis, that is, the gross profit achieved on the contract and not the gross income billed to the customer.

Our judgement around this area has been updated since the publication of the full year accounts for the year ended 28 February 2022 following recent guidance issued by the IFRS Interpretation Committee, and in line with developing clear and consistent practise within our industry. Previously we treated most of our indirect software sales (those comprising cloud-based and critical security licences) on an agency basis, with the remainder of indirect software sales treated as principal. The change in judgement for FY23 is to treat all indirect software sales on an agency basis (including those previously treated as principal). Full details are set out in note 1.6 of the financial statements. This has resulted in a reduction in our revenue and the prior year figures have been restated accordingly as follows.

- Prior year (FY22) revenue and cost of sales decrease by a further £302 million on top of the reported agency adjustment for that year.
- Gross invoiced income, gross profit, operating profit, and profit before and after taxes is unchanged in both years. The consolidated statements of financial position, cash flows and changes in equity also remain unchanged.

For our other income streams, there has been no revision in the accounting treatment, with hardware and internal services revenue treated as principal whilst external services revenue is treated on an agency basis.

The growth in revenue of 26.5% against the prior year restated figure reflects this revised judgement, but nevertheless shows the growth in the business alongside the reported GII increase.

Gross profit (GP) and gross profit/GII (GP/GII%)

Gross profit increased by 20.7% to £129.6 million (FY22: £107.4 million) with this growth coming from across the business.

Corporate GP grew by 19.6% to £83.7 million (FY22: £70.0 million) with the corporate GP/GII% remaining in line with the prior year at just over 14%. This reflects the continued strengthening of demand from corporate clients post the pandemic.

In the public sector, GP grew by 22.7% to £45.9 million (FY22: £37.4 million) with an increase in GP/GII% from 5.2% to 5.4%. This is notable considering the level of competition within tenders and the growing trend towards aggregated bids where several public sector bodies may require pricing to be submitted on a combined basis. Where new large agreements have been won at a lower margin, management is acutely focused on tracking these customers individually to ensure that the strategy delivers value for the business, and our other stakeholders by complementing them with higher margin services over the duration of the contract.

Our overall GP mix remains balanced in favour of the corporate sector due to the higher GP/GII% which is generated there, contributing 65% versus the public sector's 35% (also 65% and 35% respectively in FY22).

Our overall GP/GII% has increased to 9.0% from 8.9% last year, which is a strong outcome. It remains a key priority to increase this measure further by focusing on selling our wide range of solutions offerings and higher margin security products, whilst maximising our vendor incentives through achievement of technical certifications.

In FY22 we reported 5,330 customers trading with us whilst in this year the figure has risen to 5,941, a net gain of 611 (up 11%). In FY23, 96% of our GP came from customers that we also traded with last year (FY22: 93%), at a renewal rate of 116% (which measures the GP from existing customers this year compared to total GP in the prior year) (FY22: 111%).

Administrative expenses

This includes employee costs and other administrative expenses as set out below.

Employee costs

Our success in growing GII and GP continues to be as a direct result of the investments we have made over the years in our front-line sales teams, vendor and technology specialists, service delivery staff and technical support personnel, backed up by our marketing, operations, and finance teams. It has been, and will remain, a carefully managed aspect of our business where we strive to invest in line with actual growth, not before.

In addition to continuing to hire in line with growth, another successful strategy that has delivered results is our commitment to develop, promote and expand from within the existing employee base, giving our people careers rather than just employment. This, in turn, has encouraged long tenure from our employees that align with the long relationships we have with our customers, vendors, and partners. This is at the very heart of our low employee churn rate, the growth in gross profit per customer and our high customer retention rate.

Employee costs included in administrative expenses rose by 18.3% to £63.3 million (FY22: £53.5 million) but excluding share-based payments of £4.2 million (FY22: £2.5 million), the rise was 15.9%, notably lower than the 20.7% rise in GP and reflecting the balanced and proportional way in which vital staff investments are and will continue to be made. During the year we have seen total staff numbers rise to 930 on our February 2023 payroll, up by 20% from the year-end position of 773 on 28 February 2022.

Other administrative expenses

Other administrative expenses increased by £3.7 million to £15.4 million (FY22: £11.7 million). This increase included additional spend on internal systems, professional fees, staff welfare and travel costs. This reflects the costs of running, and investing in, a growing organisation and in operating a listed Group, including evolving our governance structure, controls, and processes with the support of our professional advisors.

Travel and entertaining expenses have not yet reverted to pre-lockdown levels but have increased by £0.3 million compared with those incurred last year. We expect these costs to increase gradually in the coming year but to remain far lower than previously experienced pre Covid-19.

Our trade and other receivables balance at this year end is up on last year by £28.3 million (18.0%), in line with the growth of GII. We have therefore increased our closing impairment allowance by £0.79 million to £1.54 million from the £0.75 million provided at 28 February 2022. However, we are not seeing any indication of customer non-payments and have come through the year with only £0.1 million in bad debt write-offs. Accordingly, the increased allowance represents a small percentage of the gross receivables balance of £179.9 million.

Adjusted operating profit and operating profit

Adjusted operating profit excludes, from operating profit, the effects of:

- Share based payment charges as, whilst new employee share schemes are being launched, the charge to the income statement will increase each year. Accordingly, the charge for the current year has risen to £4.2 million, compared to £2.5 million last year.
- Amortisation of acquired intangibles as this cost only appears as a consolidation item and does not arise from ordinary operating activities.

We believe that adjusted operating profit is a meaningful measure which the Board can use to effectively evaluate our profitability, performance, and ongoing quality of earnings. Adjusted operating profit in FY23 increased to £56.4 million (FY22: £46.3 million), representing growth of 21.8%. Our operating profit increased from £42.2 million to £50.9 million equating to an increase of 20.6%.

Adjusted operating profit as a percentage of GP is one of the Group's key alternative performance indicators, being a measure of the Group's operational effectiveness in running day-to-day operations. We set a target of no less than 40% and we have again achieved this, with a ratio of 43.5% (FY22: 43.1%).

Income tax expense

The effective rate of tax charged for the year is 19.9% of profit before tax (FY22: 20.7%). Excluding the impact of the non-deductible share-based payments costs and amortisation of intangibles, the underlying adjusted rate reverts to close to the standard rate of corporation tax of 19% for FY23 (FY22: 19%).

How we performed in 2022/23 continued

Balance sheet and cash flow

Summary balance sheet	As at 28 February 2023 £'m	As at 29 February 2022 £'m
Property plant and equipment	8.4	8.0
Intangible assets	41.5	42.8
Other non-current assets	1.2	1.1
Non-current assets	51.1	51.9
Trade and other receivables	185.9	157.6
Cash	73.0	67.1
Other current assets	10.7	6.9
Current assets	269.6	231.6
Trade and other payables	231.7	217.6
Lease liabilities	0.1	0.2
Other current liabilities	23.9	14.5
Current liabilities	255.7	232.3
Lease liabilities	0.9	1.0
Other non-current liabilities	2.6	2.7
Non-current liabilities	3.5	3.7
Net assets	61.5	47.5
Share capital	2.4	2.4
Share premium	633.6	633.6
Other reserves	7.2	3.1
Merger reserve	(644.4)	(644.4)
Retained earnings	62.7	52.8
Total equity	61.5	47.5

Closing net assets stood at £61.5 million (FY22: £47.5 million) with net current assets of £13.9 million (FY22: net current liabilities £0.7 million)

Growth in the trade and other receivables of 18.0% reflects the growth in our GII, whilst the growth in trade and other payables is lower at 6.5%. The impact on cash flow and cash conversion is explained below.

The increase in other current liabilities primarily relates to deferred income connected to our managed service contracts, a growing and strategically important part of our business, where we receive customer payments up front.

The consolidated cash flow is set out below along with the key flows which have affected it:

Cash flow	2022/23 £'m	2021/22 £'m
Cash generated from operations	48.9	61.7
Payments for fixed assets	(1.3)	(0.6)
Free cash flow	47.6	61.1
Net interest paid	(0.5)	(0.5)
Taxes paid	(10.3)	(9.1)
Lease payments	(0.2)	(0.3)
Dividends	(30.7)	(4.8)
Net increase/(decrease) in cash	5.9	46.4
Cash at the beginning of the year	67.1	20.7
Cash at the end of the year	73.0	67.1
Cash conversion	84.3%	131.9%

Cash as at the end of the year has increased by 8.8% to £73.0 million (28 February 2022: £67.1 million) which is after the payment of dividends totalling £30.6 million during the past 12 months. Final and special dividends for FY22 accounted for £24.9 million of this figure and the remaining £5.7 million was the interim dividend for FY23.

The Group's cash conversion ratio for the year (free cash flow divided by AOP) was 84.3% (FY22: 131.9%), against its target of 100%. With all other key performance measures moving in a positive direction, the movement from last year to the current year, illustrates the sensitivity of this particular ratio to even small delays in payment from customers, given that it is measured at a point in time at the year-end rather than as a rolling average. This makes it susceptible to short-term, but potentially high value, timing of customer receipts. Further, the Group does not delay payments to suppliers, when due, as a means of mitigating any such delays in customer receipts with its average creditor days remaining just above 45.

Nevertheless, after reporting a negative cash conversion for the first six months of FY23, the full-year position reflects a very strong conversion in the second six months, equating to 180%, and hence moving the full-year figure substantially back towards the Group's target sustainable cash conversion ratio of 100%.

The differences between the two halves, whilst unusually wide in FY23, is in line with our expectations due to the timing of receipts and payments in relation to some of our largest Microsoft software enterprise agreements where, for our public sector customers, many of the agreement anniversaries fall on 1 April, aligned to the public sector year end. With these orders

needing to be placed at least 30 days ahead of anniversary we often see the customers pay us prior to the end of our financial year, whilst our payments to Microsoft do not fall due until the first quarter of the next year.

As a more general trend across the year, we also saw our customers continuing their digital transformation into the cloud under usage-based licensing models, typically with monthly billing based on customer usage rather than fixed amounts per licence or agreement. This has been most notable within Microsoft's Cloud Solution Provider (CSP) program and has led to some delays in payments where customers requested additional analysis around their usage. This has contributed to an increase in debtor days from an average 33 in FY22 to 39 in FY23.

As customers become more familiar with usage-based programs, combined with our development of improved systems to provide greater clarity around CSP invoicing, and a policy to on-board new customers with direct debit as the standard payment method, we expect to see a general reduction in queries and fewer delays in payments as we go forward.

FY23 can therefore be seen as a transitional year for the business as well as for its customer base when it comes to the expansion of usage-based licensing programs. Whilst we still expect to see the seasonal variation in cash conversion from H1 to H2 during FY24, as explained above, we feel confident that the two halves will not see such a disparity as in FY23 and we are focused on a return to our targeted 100% for the full year in FY24. This is a key performance target at both operating company and Group levels.

If required, the group has access to a committed revolving credit facility (RCF) of £30 million with HSBC. The facility commenced on 17 May 2023, replacing the Group's previous facility for the same amount and runs for three years, until 17 May 2026. To date, the Group has not been required to use either its previous or new facilities.

Proposed dividends

As stated above, the Group's dividend policy is to distribute 40% of post-tax pre-exceptional earnings to shareholders. Accordingly, the Board is pleased to propose a gross final dividend of 5.1 pence per share. The aggregate amount of the proposed dividend expected to be paid out of retained earnings at 28 February 2023, but not recognised as a liability at the end of the financial year, is £12.2 million. In light of the company's continued strong performance and cash generation, the Board also considers it appropriate to propose a cash return to ordinary shareholders with a special dividend of 7.5 pence per share, equating to £18.0 million. If approved by shareholders, the final and special dividend will be payable on Friday, 4 August 2023 to all ordinary shareholders who are registered as such at the close of business on the record date of Friday, 21 July 2023.

Sustainability review

“ Phoenix is on track with our net zero targets, which alongside our business growth, is an amazing achievement. And our social value initiatives are making an impact. Our employees have been key to that success.

Jennifer Clewley

Sustainability Lead, Phoenix

“ I’m thrilled to be in a position that combines my background in sustainability with my passion for Bytes. I’m looking forward to building on the great work that Bytes has already done in this important area.

Lisa Prickett

Group Sustainability Manager



As a responsible business, we recognise our duty to everyone who works for us, with us and around us. It's a philosophy underpinned by our core values of integrity, respect and kindness. We focus on doing the right thing by **our people**, **our communities** and **our planet**.



Our people

We strive to recruit, engage and retain employees and to make BTG the right place to build a fulfilling and rewarding career.

- Our headcount rose from 773 to 930.
- Our employee net promoter score reached 70.

>> [Read more on page 36](#)



Our communities

We're building on our great community record to deliver more benefits to society and our customers.

- Our volunteering work continued to grow, in time and impact.
- We donated funds and goods to numerous causes, from local schools to Ukraine.

>> [Read more on page 42](#)



Our planet

Through our own actions, and the way we help customers use IT more sustainably, we are helping to build a healthier world.

- We announced our intention to be carbon net zero by 2040.
- We actively engaged with CDP through annual submissions.
- We're using external guidance to help us to drive our plans towards gaining recognition by the Science Based Targets initiative.

>> [Read more on page 44](#)

Our sustainability framework

Our sustainability framework is published as a separate document and is available at bytesplc.com.

We support all the UN Sustainable Development Goals, but focus on the seven where we can have the most impact:



Our people

Our people are an integral part of the success of our business, and we want to support them to enjoy long, rewarding and fun careers with us. In a highly competitive market for IT talent in 2022/23, we were able to retain and recruit outstanding employees to serve our ever-growing customer base. We also paid specific attention to helping our people who were affected most by the rise in the cost of living.

One company, two complementary businesses

Our two businesses, Bytes and Phoenix, have 552 and 373 employees respectively. While each business operates autonomously and has its own identity, locations and management team, they have many commonalities. These include similar employment policies, industry-leading skills and, most importantly, the same values and can-do culture. The businesses also look for opportunities to share good practice and insights, for the benefit of BTG as a whole.

Growing our teams

With the rapid changes in technology, and organisations' increased reliance on it to meet their own growth objectives, specialist IT skills are in high demand across all industries, not only within the tech sector. That makes it harder to keep employees and to find new ones. At BTG, we have always been very proud of the loyalty of our people, who tend to stay with us for a long time.

This year, once again, the combined attrition rate at Bytes and Phoenix was below the industry average. At the same time, we were able to grow our headcount by 157. We recruited senior specialists where we had gaps in expertise, but in general our goal is to develop our pipeline of talent from within. This year, we had

a total of 17 sales and technical apprentices at our two businesses – read more on pages 40 to 41.

Listening, learning and fostering engagement

We take employee engagement very seriously, starting from the top. Patrick De Smedt, our Chair, held a town hall meeting for several hundred people, in person and virtually, at our Phoenix headquarters, where he explained the Board's work and took questions. This opportunity was also used by all other Board members, including Neil Murphy and Andrew Holden, to directly engage with our employees. Our designated workforce engagement non-executive director, David Maw, also spent time with employees at both businesses during the





Bytes certified as a Great Place to Work in 2022/23

In the previous financial year, Phoenix was certified for the first time as a 'Great Place to Work', based on staff surveys, and this year was ranked 6th in the UK's Best Tech Workplaces. Bytes launched its own accreditation process in 2022/23. An impressive 88% of Bytes people took part in a Great Place to Work survey, after which the business was also certified.

year, while our two MDs held regular all-employee meetings. The goal in all cases is two-way communication; receiving honest feedback from our people and acting on it is essential for maintaining trust.

As people came to the office more regularly following the end of the pandemic, we sought ways to help them interact socially and professionally with their colleagues, especially those who have joined more recently. Phoenix, for example, held a 'freshers' week', featuring games, quizzes, music and prizes, to bring people together and introduce the work of our employee networks around shared interests like diversity and charitable giving. At Bytes, extensive refurbishments to the office in Leatherhead were designed to improve collaboration and interaction – and provide space for less formal engagement opportunities outside of working obligations.

Helping our people in tough times and rewarding excellence

High inflation led to significant increases in living costs this year. All our people were affected, but especially those on lower salaries. That's why we gave the highest pay rises, in percentage terms, to them, effective from 1 March 2023. Besides paying people fairly, we have employee recognition programmes based on the achievement of business growth objectives, both for sales and non-sales staff, with prizes including skiing and diving trips. We also offered awards for employee of the month, people who made the best suggestions on how to improve efficiency and those reaching long service milestones.

In 2022/23, we launched our second Sharesave scheme, and now have more than half of our people participating in at least one of the plans. These initiatives all

contribute to our high employee net promoter score (eNPS) of 70, which measures the likelihood of people recommending their employer to others.

Staff referrals are valuable because they reduce recruitment costs and mean we attract candidates more likely to fit into our culture. Across our businesses, we hired numerous people from staff referrals this year.



Sustainability review continued: Our people



Supporting the physical and mental wellbeing of our people

We want our people to be happy and healthy, in body and mind – and we do our best to help make this happen. We offer free or subsidised gym plans at or near our offices, and encourage staff to buy reduced-price bicycles through our Cycle to Work scheme. We provide healthy snack and meal options in our offices, along with free fruit.

We encourage openness about mental health, and offer help for those in need. The value of Bytes's 24/7 employee assistance programme (EAP) became clear during the pandemic, and this year Phoenix launched its own EAP. And, Bytes introduced a new policy where employees can take two extra days paid leave, at the discretion of their manager, in line with our efforts to support employee wellbeing.

“ We want our people to be happy and healthy, in body and mind – and we do our best to help make this happen.



How we develop our talent

Helping our people fulfil their potential is more than a goal at BTG – it's at the heart of our purpose. Every employee is given the opportunity of a personal development plan that tracks their progress against goals reflecting their ambitions and our strategic objectives. As we grow, we're trying to do even more to ensure we help people to develop their skills, and explore new opportunities across the business. Our human resources teams are actively involved in this process, with more actions planned for the year ahead.

At Bytes, for example, we appointed our first career pathways manager this year. We also invest significantly in training. Sales employees follow a continuous development programme, with input from vendors and customers. Training is not only valuable to our people, it also benefits our business. Public sector tender frameworks require us to have a set level of accreditations, and vendors pay us higher rebates if our people have the requisite certifications.



Our progress on gender parity and ethnic diversity

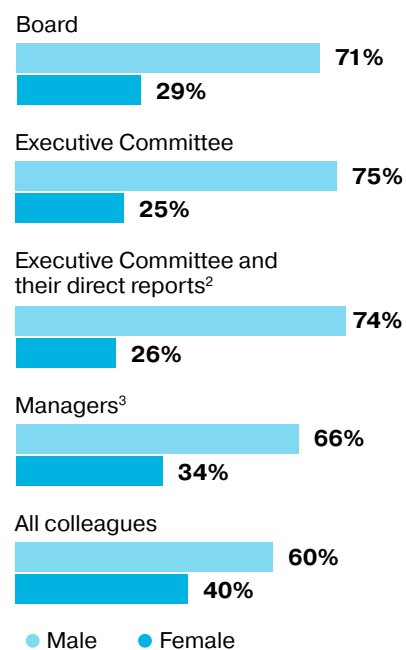
We believe in giving equal opportunities to people of all genders, and all ethnicities. Our stakeholders want to see our commitment to that, too. Within our business, we're ahead of our industry in gender parity. Sam Mudd heads up Phoenix as MD while, across the business, women represent 34% of Bytes's and Phoenix's combined managers, and 40% of our total employees. This compares with the UK as a whole, where around 10% of technology directors and a third of IT employees are women.¹ This, along with accolades such as Phoenix being named number eight on the UK's Best Workplaces for Women list in 2022, shows we're on the right path. At the year end, our Board gender balance was at 29%, but with the appointment of Sam Mudd, which will take effect at the conclusion of the 2023 AGM, this figure will become 43%.

We're working harder to go further though, not just on numbers, but also the positions people hold. Overall, men are paid more because they hold more of our sales and senior roles, which are typically better paid than our administrative and support positions where we have more women. Our initiatives to recruit more women include partnering with local schools, colleges and even Girl Guide groups, and attending events that seek to promote women in technology.

We're also striving to become more ethnically diverse. Most of our workforce is white, reflecting the demographics of our two main sites, in Surrey for Bytes and East Yorkshire for Phoenix. Both businesses have encouraged their people to enter their ethnicities and nationalities

on our human resources system, and, while we don't have enough data to report our ethnic breakdown yet, we aim to do so in 2023/24. Through our apprentice programmes and hybrid working opportunities, we have started attracting more diverse talent. We're also working with a specialist agency that helps companies recruit and retain people from minority groups.

BTG gender balance¹



¹ The gender balance data reflects the information as at 28 February 2023.

² The Executive Committee and their direct reports include executive directors, our managing directors and their direct reports, comprising individuals for whom they have direct line management responsibility, excluding administrative and support roles.

³ Managers refers to leaders in BTG including Executive Committee and senior leadership members.

¹ <https://www.computerworld.com/article/3610588/women-in-tech-whats-the-landscape-look-like-in-the-uk>

OUR PEOPLE

Connected by trust

“

I am now an infrastructure support analyst at Phoenix and was promoted to the role within months of finishing the apprenticeship. This just goes to show the trust and development Phoenix puts into its existing staff by promoting internally.

Harris Bowman

Infrastructure Support Analyst, Phoenix

“

It is an amazing opportunity to work in a real job while I learn, gain experience and get paid all at the same time. By the end of my apprenticeship, I will have my qualification and the right skills and knowledge for my chosen career.

Kenza Fazez

Apprentice Payroll and Benefits Administrator, Bytes

“

Learning on the job is a great way to develop your skills and progress towards your future goals and aspirations. I had very little experience in the industry before starting my apprenticeship, but now I have a job I enjoy massively.

Matt Tinker

Senior Security Operations Centre Analyst, Phoenix

A trusted partner to our people

Walk around any of our offices and you won't have to go far to find someone who has worked here for 15 or 20 years – or even longer.

We are proud of our people's loyalty, and their trust that we will help them enjoy long, fulfilling careers with us. We build this trust in many ways, including through our friendly, fun culture and our values like kindness and respect; by ensuring that our people do rewarding work and are fairly remunerated for that work; and by providing development opportunities at every stage of a person's career. Right from the start – as our apprentice and academy schemes demonstrate. We need to recruit more people every year as our business expands. Instead of trying to do this only by hiring experienced people in the market – which can be challenging and costly because of the high demand for IT skills – we build our own pipeline of talent from within. At Bytes and Phoenix we offer superb opportunities to people to break into the tech industry, and to learn on the job, obtain qualifications and grow with us as they start their careers in IT.

We offer schemes across a variety of business areas. For example, our technical apprenticeships are a launchpad for careers in IT services and solutions, providing technical support to our employees and customers. During their training period, the apprentices receive broad exposure to various specialities, including infrastructure, cloud and security services, and a potential pathway in other areas. Sales training schemes, meanwhile, offer people the chance to be at the forefront of technological change, and help customers transform their businesses. At Phoenix and Bytes, the Sales Academy hires recent graduates and people from other industries who are looking to move into IT. They receive intensive training, under a dedicated sales manager, before continuing independently in the business. And because our policy is to encourage promotion from within, they know they will have the chance to quickly progress if they perform well.

“

The apprenticeship gives me a chance to learn in a real environment, and to get stuck in with real problems rather than reading about them in a book.

Cameron Montlake-Mees

Service desk support technician



Our communities

Our people believe passionately in making a difference and giving back to the communities in which we operate. This enriches our local areas, aligns with our goal of supporting social causes, builds the reputation of our businesses – and it's really enjoyable.

As part of our ongoing commitment to support positive change in our environment and communities where we operate, we continue to make financial contributions.

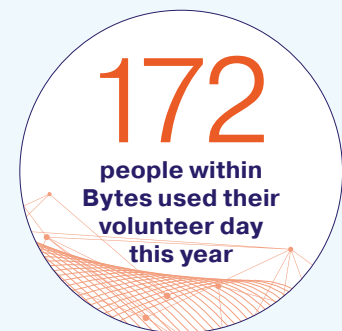
Helping our people help others

The foundation of our great community track record is volunteering, which closely aligns with our values, in particular kindness to all people. Every year we give our employees one day, fully paid, to do work for charities or other good causes close to their hearts. They freely offer their time and skills to do an array of rewarding work. At Bytes this year, for example, activities ranged from painting rooms at Leatherhead Riding for the Disabled, to beach clean-ups and supporting a midnight walk in aid of St Catherine's Hospice. This year 172 people at Bytes used their volunteer day, and such high

levels of engagement illustrate just how much joy our people get out of giving back.

We're really proud that at a time when the tough economic conditions are making it harder for many to get by, our people are doing ever more to help. At Phoenix, a staff survey on volunteering showed that the number of people who volunteered, either through work or in their personal lives, increased to 50% this year, a big jump from 40% in the previous year. To make it easier for employees to find ways – and time – to help, Phoenix partners with the onHand volunteering platform, which enables people to sign up for flexible 'missions' that take as little as an hour. Some of the fantastic charities supported in more than 800 of these missions completed in 2022/23 included Shelter, Crisis, Red Cross, Pret Foundation, NHS, Dementia Friends and the Salvation Army.

The volunteering activities included youth mentoring, befriending schemes for the socially isolated and street cleans – work that is much needed and highly valued in the communities.



Using Minecraft and Frozen Planet 2 to promote IT to girls

As part of our customer social value commitments, we love working with schools. This year, Phoenix was delighted to be invited to participate in an exciting programme in the North West of England. It was designed to encourage Year 8 girls to pursue an interest in IT by introducing them to inspirational people working in tech today. Phoenix presented to around 1,000 girls alongside other leading firms and organisations, including IBM, KPMG UK and GCHQ.

Phoenix provided devices and used its partnership with Microsoft and the DigiGirlz initiative to run an interactive activity. This involved navigating a series of worlds created by Minecraft and the BBC documentary series Frozen Planet 2, to show how technology can help the planet. The students were tasked with taking on the character of a mother polar bear who had to keep her cubs safe. We could see the children had a huge amount of fun, and really valued our contribution.



“ What came out really strongly from our Great Place to Work survey was that our people feel proud about the way in which we support communities.

Jack Watson
MD Bytes

Giving for good causes

Through our people, and as a company, we financially support institutions and charities that can help others. Many of our employees use the same can-do spirit that they display at work to undertake fundraising activities in their own time, and we are pleased to be able to support them in that. Bytes, for example, provides matched funding of up to £1,000, and more than £10,000 was donated this way this year. Bytes also makes direct financial donations that strengthen ties with the local community, including giving to East Sussex County Council to fund books to help Ukrainian refugee children to learn English, Leatherhead Trinity School to support their Science Week and Leatherhead Cricket Club to sponsor their season. In total, Bytes gave more than £45,000 to causes that its staff really care about. We're also happy to be able to use our technology resources to give students improved access to IT. This year Bytes donated several second-hand computers to local schools. In the 2023/24 financial year, Bytes will be making many more laptops available for donation as it routinely refreshes its internal hardware.



Phoenix chose two charities to support this year: York Special Care Baby Unit and St Leonard's Hospice. And our wonderful people raised more than £9,200 for them, a really impressive amount that included sponsorship money pledged to 35 employees who completed the Yorkshire Three Peaks challenge. Our people have also been proactive in finding other great ways to help worthy causes. Phoenix's Charity Committee introduced a food collection drive to encourage staff to donate items from the 'most needed' list of a chosen foodbank. The foodbanks are selected from our community or the communities of our customers. But we also went beyond our local area. To help the people of Ukraine, Phoenix employees organised bake sales to support fundraising initiatives, assisted with collections of clothing and toys, and then helped pack boxes of the goods to be sent by ship from Hull to Ukraine.

We support our communities in other ways too. To help local businesses to thrive, we use suppliers close to our offices, wherever possible. And, as a company with a large not-for-profit customer base, we do pro-bono work for local institutions, strengthening the bonds with our customers. While Bytes and Phoenix lead the community activity on the ground, the Group's Sustainability Steering Committee helps us have a strategic view of the work. The committee includes employee representatives from both businesses.

Our planet

As a responsible business that is committed to protecting the planet, we are reducing our carbon emissions and helping our customers to do the same. Our goal is to reach net zero emissions by 2040, at the latest.



But climate change is a complex issue, and we need to understand its potential impacts on our business, and the role we can play in collective efforts to tackle it. We therefore support the UK's upcoming regulatory requirements for businesses to report on their net zero transition plans, and the recent requirement to report against the recommendations of the Task Force on Climate-related Financial Disclosures or TCFD (see pages 50-56).

Opportunities and limitations for a technology business

We're a value-added IT reseller, focusing mainly on cloud, security and software products made by leading software companies. We primarily have two large offices, with 930 people, and a hybrid working policy. This means our direct impact on the environment is quite small, and is essentially about carbon emissions, because we don't manufacture anything, and we don't require our staff to be in the office all the time. It also means that the positive effect we can have through our direct emissions is limited, because what we do ourselves will only have a relatively small effect on overall CO₂ emissions. However, we must all play our part, because if everybody does what's within their power, the collective impact will be considerable. It's simply the right thing to do. And, of course, the biggest contribution we can make is through the solutions we provide to our customers, in particular moving to cloud services.

The importance of the collective response is now being recognised across the board through increasing expectations from all stakeholders that companies must be responsible for minimising their own emissions. This has now been enshrined in UK company regulation.



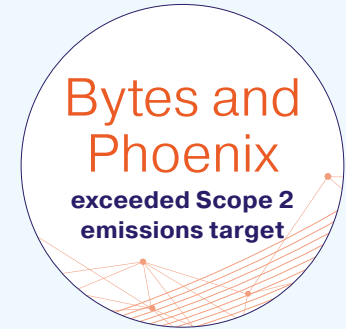
Our low-carbon action plan for a low-carbon economy

As part of our 2040 net zero ambition, which we announced in 2021/22, we have more immediate targets to support the transition to a low-carbon economy. These are set out in our internal low-carbon action plan, the primary goals of which we published in the previous financial year, and which we have updated this year in light of more work on our carbon footprint, as discussed below.

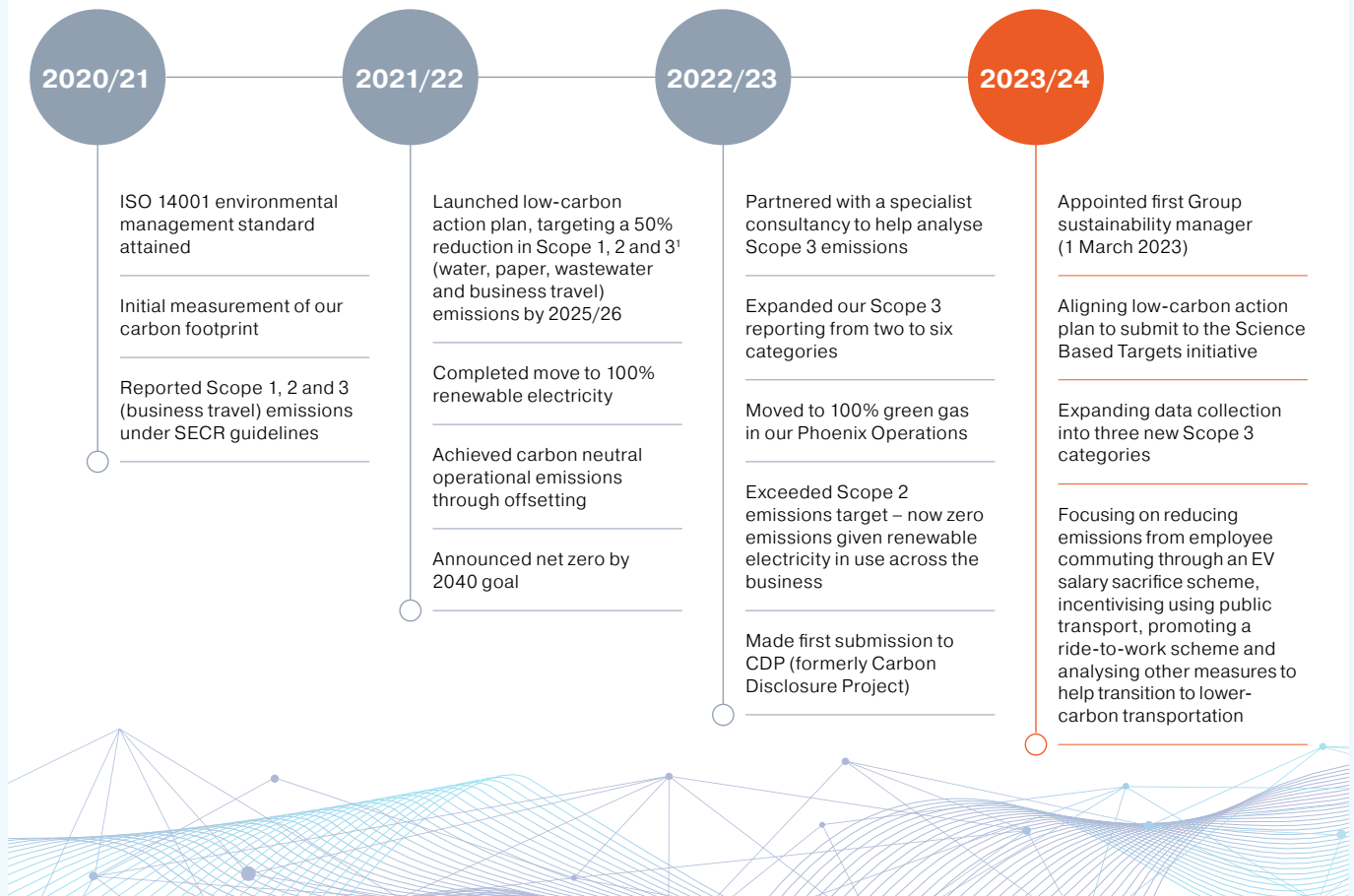
To help us deliver our low-carbon action plan, we appointed our first group sustainability manager, Lisa Prickett, who joined us on 1 March 2023. She will help to guide our journey to net zero and to ensure a coordinated approach between our two businesses, Bytes and Phoenix. Lisa works with the senior leadership team,

heads up our Sustainability Steering Committee and engages with the wider business to report on and coordinate our activities and ensure progress against the plan. Key elements of this role are to stay up to date on corporate and public sector expectations in this area, and to work with our customers and suppliers to ensure we are putting resources where we can have the biggest impact. For full details of how we oversee and manage environmental issues, see our TCFD report, governance section, on page 51.

This year, we made our first submission to the CDP (formerly Carbon Disclosure Project), and we will continue to expand on our disclosures.



The road to net zero – our journey so far



¹ Emissions reduction target set in 2021/2022 for Scope 3 (Business Travel only) has been amended this year – please see 'Revising our Scope 3 Target' on page 47 for further details.

Understanding our carbon footprint

When we first announced our low-carbon action plan last year, we included aims to reduce our Scope 1, 2 and 3 emissions by 50% by 2025/26, from our 2020/21 baseline. Since we launched the plan, however, we have begun working with a specialist carbon emissions consultancy to gain a much better understanding of our Scope 3 emissions and so broaden our reporting of the categories that apply to us (as defined by the Greenhouse Gas

Protocol). This matters because it means our data analysis and reporting is becoming far more sophisticated – after all, for our plan to achieve its objectives, it must be based on comprehensive data.

As shown in the table on page 47, we have identified that nine of the 15 Scope 3 reporting categories are relevant to our business. Of those measured to date, by far the largest proportion comes from category 7, employee commuting, with

category 6, business travel, and category 4, upstream transportation and distribution, together accounting for about half again. In our baseline year, 2020/21, we measured only one, category 6, while this year we are measuring six categories, including, for the first time, the largest, employee commuting. This has considerably reshaped our emissions reporting, as discussed below in performance in 2022/23.

This year we have put a lot of effort and used external resources to be able to report on a broader range of Scope 3 categories, this has brought in Employee commuting which alone now contributes to 62% of our footprint.

Our 2020/21 baseline carbon footprint



Description

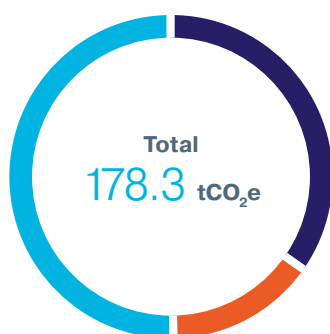
Scope 1	
Direct emissions from our sites	54.5
Scope 2	
Indirect emissions from the energy we buy	233.0
Scope 3	
All other indirect emissions across our value chain	27.6



Category

6	Business travel	27.6
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Our 2021/22 carbon footprint



Description

Scope 1	
Direct emissions from our sites	62.1
Scope 2	
Indirect emissions from the energy we buy	26.7
Scope 3	
All other indirect emissions across our value chain	89.5



Category

1	Purchased goods and services (paper, water and wastewater only)	1.0
3	Fuel and energy-related activities	19.9
5	Waste generated in operations	2.2
6	Business travel	66.4

Today's (2022/23) carbon footprint



Description

Scope 1	
Direct emissions from our sites	89.6
Scope 2	
Indirect emissions from the energy we buy	0
Scope 3	
All other indirect emissions across our value chain	1,291.8



Category

1	Purchased goods and services (paper, water and wastewater only)	1.06
3	Fuel and energy activities	16.8
4	Upstream transportation	201.3
5	Waste	0.19
6	Business travel	212.9
7	Employee commuting	859.6

Revising our Scope 3 target

Given the considerable improvements we have made in analysing our Scope 3 emissions, amending our target became essential. In three years, it is not feasible to achieve a 50% reduction in Scope 3 for nine categories – including employee commuting. We considered changing our baseline year, which would have made achieving all our emissions targets far

easier, since it was set during Covid when there was almost no business travel or employee commuting. However, we felt that this would be a backward step considering our long-term goal of achieving net zero by 2040.

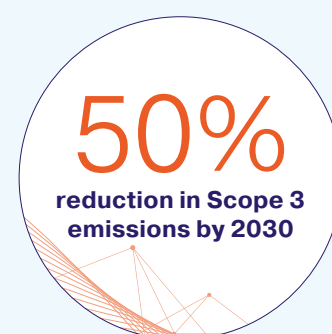
We have therefore amended our overall Scope 3 target, giving ourselves until 2030 to achieve the 50% reduction across all nine relevant categories. We are also

breaking down our Scope 3 target into interim targets for each category to ensure we can reach that overall target by 2030. To date, we have set interim targets for category 5 (waste), and a subset of category 1 (paper, water and wastewater), of a 50% reduction by 2025/26. We will announce interim targets for other categories in due course as we collect more data and work more closely with our suppliers.

The work we've done also means that we will be in a good position to apply next year for our targets to be approved by the Science Based Targets initiative.

Achieving net zero by 2040

We appreciate that our current emissions targets, Scope 3 in particular, take us halfway towards our net zero ambition by 2040. Nonetheless, our ongoing work to deepen our analysis of Scope 3 gives us reasonable confidence that we can achieve our ambition. This is because the results are enabling us to focus on where we need to make the biggest changes. Employee commuting is key to this, and achieving net zero will require government action on policy and infrastructure to enable the universal adoption of electric vehicles. The UK Government has pledged to end sales of new petrol and diesel cars by 2030, and we therefore expect that, by 2040, the vast majority of vehicles in use will be electric. This, alongside phasing in our EV scheme and our support for the cycle-to-work scheme, will help our employees use lower-carbon forms of transport to get to work, and therefore enable us to meet our net zero ambition.



Analysis of Scope 3 emissions and reporting status

Category ¹	Commentary	Status
1 Purchased goods and services	A subset – paper, water and wastewater – first measured in 2021/22. Other subsets of this category need more analysis through work with our suppliers	Partially reported 2023/24 focus area
2 Capital goods	Identified as relevant; aiming to expand data collection in 2023/24	2023/24 focus area
3 Fuel and energy-related activities	First measured in 2021/22	Reported
4 Upstream transportation and distribution	First measured this year; aiming to improve accuracy of data in 2023/24	Reported
5 Waste generated in operations	First measured in 2021/22	Reported
6 Business travel	First measured in 2020/21 (car only) as part of our original Scope 3 reporting; expanded into all means of transport in 2021/22	Reported
7 Employee commuting	First measured this year; aiming to improve accuracy of data in 2023/24	Reported
8 Upstream leased assets	Identified as not relevant	N/A
9 Downstream transportation and distribution	Identified as not relevant	N/A
10 Processing of sold products	Identified as not relevant	N/A
11 Use of sold products	Identified as relevant; aiming to expand data collection in 2023/24	2023/24 focus area
12 End-of-life treatment of sold products	Identified as relevant; aiming to expand data collection in 2023/24	2023/24 focus area
13 Downstream of leased assets	Identified as not relevant	N/A
14 Franchises	Identified as not relevant	N/A
15 Investments	Identified as not relevant	N/A

¹ Categories as defined by the Greenhouse Gas Protocol.

Sustainability review continued: Our planet



Helping organisations track carbon emissions

Phoenix's award-winning sustainability app is an innovative, flexible tool that enables local authorities to get a view of their carbon emissions and take mitigating actions.

Originally designed for internal use, the app aligns with Microsoft technology to help organisations record, collate and convert emissions data from various sources, from electricity to water and waste. This information is then analysed and used to report against targets, helping local authorities to reduce emissions by tracking carbon reduction activities against key dates.

Performance in 2022/23

In total, our carbon emissions for 2022/23 were 1,381.4 tonnes CO₂e. This headline figure appears to be a considerable increase from the previous financial year, however it is largely accounted for by the much broader reporting of our Scope 3 emissions discussed above.

The other two main contributing factors were business travel, as it returned to more normal levels post-Covid and a heating failure at our Surrey office that led to a short-term spike in Scope 1 emissions. This has been addressed, and we expect Scope 1 emissions not only to drop back down, but to reduce still further in the coming year, considering we also moved to green gas at our York office in November 2022.

Underlying the headline increase in emissions is our meaningful progress in reducing Scope 2 to zero, following our first full year of moving to renewable electricity across our operations. Our new shared office space in London, which we moved into on 1 March 2023, uses 100%

renewable electricity, so our Scope 2 will remain at zero in the coming year. It should also help us reduce some employee commuting (our largest reported Scope 3 category) since it will reduce the need for our London-based staff to travel to our office in Surrey.

As in previous years, we offset the emissions that couldn't be reduced yet through our partnership with Ecologi, which we chose for its high standards of supporting the communities it works with. Following the two projects we helped last year (a wind power project in northern Thailand, and electrifying a metro system in India), this year we are supporting projects in Brazil (avoiding methane emissions from landfill), Kenya (distributing cleaner cooking stoves), Colombia (protecting the Matavén Forest) and Sri Lanka (a wind power project). Not only do these projects help reduce emissions, they also improve the living environment for local communities. In the long term, however, carbon reduction rather than offsetting remains our goal.

Making the sustainable choice every day

Reducing emissions is not something that can be achieved once – like health and safety for example, it's an ongoing reality that must be lived in the choices we make every day, and can be decreased through the measures we put in place. Across both our businesses then, we focus on helping our people make sustainable choices. These include:

- Reducing our business travel by encouraging our people to contact customers and vendors by phone or videoconference whenever possible
- Supporting hybrid working and efficient working practices to reduce commuting
- Encouraging our people to commute in a more efficient way by installing electric car charging points at our main locations, setting up a car sharing network and installing secure cycle parking
- Partnering with Octopus Energy to allow our people to buy electric vehicles under a salary sacrifice scheme
- Using materials, energy and water efficiently
- Continuing to highlight the importance of good environmental management throughout BTG, including controlling office heating and cooling in a smart manner
- Working with suppliers and partners to reduce their carbon footprints.

Our carbon reduction goals

50% targeted reduction in Scope 1 and 2 emissions by 2025/26

50% targeted reduction in Scope 3 emissions by 2030

Net zero emissions by 2040

Working with our customers for a more sustainable future

While managing our own impact is essential, the biggest contribution we can make to hastening the UK's move to a low-carbon economy is through the software and technical solutions we sell to our customers. In particular, we do this by supporting them in moving their on-site servers, products and services to the cloud. This helps them to reduce their carbon footprint, because most of our vendor partners focus keenly on their energy-efficient datacentres, so they produce fewer emissions than our customers would be able to if they hosted their datacentres themselves.

We help customers be more sustainable in other ways too. For example, we enable them to hold high-quality videoconference meetings, and so reduce travel emissions, by being a Microsoft FastTrack Teams implementation partner (a service that enables organisations to move quickly to the cloud). Phoenix is sharing its insights, having created its own sustainability app – a simple, easy-to-use tool that records, reports and tracks carbon emissions – to help its public sector customers to measure their own footprint. The app,

developed with Microsoft, allows organisations to start to measure and understand their emissions, by connecting to gas, electricity, water and mileage data. The app was a finalist in the Microsoft Partner Pledge Awards and a winner of the CRN Tech Impact Award 2022 for Most Sustainable Solution/Service of the Year. We will use the app across the Group to record and monitor ongoing emissions.

Looking ahead

Like all businesses in growth mode, we have to take into account how we will minimise our impact on the environment while pursuing our growth ambitions. It stands to reason that the more products and services we sell, the more people we employ, the greater our carbon emissions will be, if we do nothing to reduce them. This is why our ambition to achieve net zero by 2040 is so important, since it requires us to factor these considerations into our growth plans. Looking at our Scope 3 reporting, we expect our footprint to increase next year because we will be reporting more categories. So, while we continue to focus on reducing our own emissions, we will also work more closely with our top suppliers to



understand their plans to achieve net zero, and how we can support each other to ensure we all make progress towards our targets.

As discussed in the strategy section of the TCFD report on page 52, this will be a key part of the next stage of the work on our low-carbon action plan with our external partner.

Energy and carbon data*

– showing Scope 3 expansion from PY 2021/22

Energy and carbon emissions (kWh and tCO ₂ e)	2022/23		2021/22		Change
	kWh	tCO ₂ e	kWh	tCO ₂ e	
Group					
Energy consumption	1,862,561		1,513,363		+349,198 kWh
Scope 1 – Direct emissions from our sites	263,104	89.6	253,094	62.1	+27.5
Scope 2 – Indirect emissions from the energy we buy					
Location-based ¹		183.5		224.9	-41.4
Market-based ²	948,836	0.0	1,059,077	26.7	-26.7
Scope 3 – All other indirect emissions across our value chain	650,621	1,291.8	201,193	89.5	+1,202.3
Total emissions – location-based¹		1,564.9		376.5	+1,188.4
Relative emissions – location-based tCO₂e/£m		1.08		0.3	+0.78
Taking our renewable energy into account					
Total emissions – market-based²		1,381.4		178.3	+1,203.1
Relative emissions – market-based tCO₂e/£m		0.96		0.1	+0.86

* Our methodologies for reporting energy and carbon data are set out in the appendix on page 177

¹ Location-based emissions are calculated as the average emissions intensity of the electricity grid.

² Market-based emissions take renewable energy purchasing into account.

Task Force on Climate-related Financial Disclosures (TCFD)

As we discussed in Our planet on pages 44 to 49, we are a responsible business that is committed to protecting the environment by reducing our carbon emissions and helping our customers to do the same.

We are acutely aware of the impact climate change could have on our business and society, and the risks it brings to organisations and their supply chains. We support the broader adoption of TCFD reporting because we believe it will accelerate business efforts towards the net zero future we all need to achieve.

Climate change is one of the biggest challenges facing the world today, and the UK Government has made it a priority for all businesses by its focus on climate policy and regulation. This includes the upcoming requirement to publish net zero transition plans in support of the UK's overall net zero target.

Within this overall context, however, we believe that the direct impact of climate change on BTG will be relatively low, given that our primary business is in software, security and cloud solutions and IT services, in which we work with large software companies. This is because, unlike many other companies in other

sectors, we do not have factories or operations outside the UK and, at present, we perceive the likelihood of extreme weather events increasing in frequency and severity in the UK to be relatively low. We do not require staff and customers to always attend our offices in person, and the hardware we sell, which is transported by third parties, represent a relatively small part of our business. Like all responsible companies, we will continue playing our part by reducing our environmental impacts. But it's possible that climate change may bring some opportunities for us, as companies look to technology to help them with the systems and services needed to manage and monitor its impacts.

Nonetheless, the world's understanding of climate change and its effects are constantly evolving, and we need to monitor this on an ongoing basis to make sure we can continue to withstand its impacts and support the transition to a low-carbon economy.

Compliance with TCFD

This is our second report against the recommendations of TCFD. Like last year, we have complied with most of the recommendations, and have explained where we have not complied, including, where relevant, what our next steps in this journey are. To help readers, we have summarised our compliance in the table below and, to avoid repetition, have cross-referenced to relevant information elsewhere in the Annual Report, particularly the Our planet section on pages 44 to 49, which should be read in conjunction with this TCFD report. As noted in the table, we comply fully with nine of the TCFD's recommendations and partially with the other two.

TCFD recommendation	Compliance and cross reference	Comments/next steps
Governance see pages 51 to 52		
a. Describe the Board's oversight of climate-related risks and opportunities.	Fully compliant – see pages 51 to 52	N/A
b. Describe management's role in assessing and managing climate-related risks and opportunities.	Fully compliant – see page 52	N/A
Strategy see pages 52 to 55		
a. Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.	Fully compliant – see pages 53 to 55	N/A
b. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.	Partially compliant – see page 52	In the coming year we will engage with an external party/parties to continue monitoring our risks
c. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Partially compliant – see pages 52 to 53	In the coming year we will engage with an external party/parties to continue monitoring our risks

TCFD recommendation	Compliance and cross reference	Comments/next steps
Risk management see page 56		
a. Describe the organisation's processes for identifying and assessing climate-related risks.	Fully compliant – see page 52	N/A
b. Describe the organisation's processes for managing climate-related risks.	Fully compliant – see page 52	N/A
c. Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.	Fully compliant – see page 56	N/A
Metrics and targets see page 56		
a. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	Fully compliant – see page 56	N/A
b. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.	Fully compliant – see pages 46 and 49	N/A
c. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Fully compliant – see page 56	N/A

Governance

Given the importance of climate change, and how the issues are evolving constantly, we oversee climate change at the highest level of the company, and our governance structure ensures that we factor climate-related issues into our thinking throughout the business. This year, we made one significant change to our overall governance of climate change, which was the appointment of our first sustainability manager for BTG, who will be responsible for ensuring a joined-up approach between our two businesses. Otherwise, our governance structure remains unchanged, as set out below.

The Board

- Overall responsibility for the effective delivery of our environmental targets
- Oversees climate-related risks and opportunities
- Considers climate change as part of our engagement with stakeholders
- Our CFO is BTG's executive director for sustainability
- The Board, with senior leadership, also oversees governance aspects of ESG

Executive Committee, management and Group sustainability manager

- Operational management of environmental targets and stakeholder engagement
- Review and monitor climate-related risks and opportunities

Sustainability Steering Committee

- Sustainability Steering Committee (previously environmental and social steering committees) created in 2021/22
- Members drawn from senior leadership and across the business
- Considers progress against targets and assess operations from a sustainability viewpoint
- Meets quarterly

Operational teams (Better Bytes team and Phoenix Sustainability Network)

- Champion practical environmental activity
- Raise awareness of local social and environment issues
- Meets regularly

Task Force on Climate-related Financial Disclosures (TCFD) continued

Focused oversight at Board and management levels

Our Board has overall responsibility and accountability for sustainability, including the achievement of our environmental targets and for overseeing climate risks and opportunities. These are outlined within our Sustainability Framework, which includes our ESG reporting methodology – and are available in the sustainability section of our website at bytesplc.com/sustainability.

Beyond the Board, we have a tiered chain of responsibility within our business for driving, embedding and monitoring our approach to environmental issues, including consideration of the potential effects of climate change.

Our Executive Committee is responsible for the delivery of our environmental targets, and reviews and monitors climate

risks and opportunities, reporting up to the Board. Our CFO is the executive director responsible for climate change and, working with our Group sustainability manager and operations MDs, leads the development of our climate change policies. Our CFO is also responsible for overseeing climate-related financial activities and reporting, including sponsoring the management-level TCFD working group. This is made up of senior colleagues from across our governance and sustainability, risk management and finance functions. The working group updates the Executive and Audit committees on progress in line with our risk review cycle.

At the operational level, we have our Sustainability Steering Committee, which was established in 2021/22 and meets quarterly. It monitors the impact of climate change and ensures we integrate

environmental issues into our strategic planning. The committee includes our new Group sustainability manager, as discussed in Our planet on page 45, our CFO, and other senior leadership members and colleagues with relevant functional roles or who have a particular interest in this area. Our CFO reports on the progress of our environmental initiatives, as covered by the steering committee, to the Executive Committee.

At the operational level, we have two staff-led teams, one for each of our businesses, which promote initiatives, raise awareness of the importance of environmental issues and carry out local activity: the Better Bytes group and the Phoenix Sustainability Network. These teams form an integral part of our collective efforts and report into our Sustainability Steering Committee.

Strategy

Our strategy is to grow organically by winning new customers and doing more with existing customers. But we also want to grow while minimising our impact on the environment, which is why our commitment to achieving net zero by 2040 matters, since it enshrines that aim in our strategic plans. Depending on how the effects of climate change materialise, there could also be opportunities for us as more customers look to technology to mitigate its effects.

The Board is supported by our CEO, CFO and other senior leaders in ensuring that sustainability remains core to our strategy. It was, for example, again covered at our 2022/23 Board strategy session. We also set aside time for the Board to receive updates on our sustainability commitments and performance. During the year, the Board was briefed on the progress of our sustainability initiatives and our TCFD report, along with receiving standing updates on emerging external trends and developments, and stakeholder expectations around commitments to net zero.

Analysing our climate-related risks and opportunities

In 2021/22, our operational boards and then environmental steering committee, conducted a preliminary analysis of climate-related risks and opportunities – see more detail in our Risk report on page 59. In 2022/23 we reassessed the identified risks and opportunities alongside the TCFD's recommendations. In terms of risk, our analysis covered physical risks (acute and chronic threats relating to extreme weather) and transitional risks (such as financial, political, social and reputational factors), which could have a negative impact on our business, supply chain and workforce. We considered them over a broad timeframe, from 2022/23:

- **Short term:** one to three years – the depreciation of the majority of our IT assets, which reflects the length of our typical customer software contracts
- **Medium term:** three to ten years – to 2030, the target date for our main emissions goal
- **Long term:** ten to 27 years – which covers our net zero goal of 2040, and the start of 2050, the UK's net zero target.

Some risks may arise in the shorter term, however many of the effects of climate change will arise in the longer term and therefore come with an inherent level of uncertainty. We have identified those – and potential opportunities – most likely to affect BTG, as set out below. The magnitude of our climate-related risks and opportunities not only depends on the physical impacts on our business operations; it is also shaped by regulatory developments in our markets, our goal to reduce our operational carbon footprint, and our efforts to understand and shape a culture of climate action.

While we acknowledge that some physical risks will be present well below the 2°C threshold set out by TCFD, since these risks are largely immaterial to our business, we have not deemed it meaningful at this stage to quantify their financial impacts. Nonetheless, we will continue to monitor the potential impact of increases in global temperatures and will adapt our analysis as necessary.

Overall, our analysis showed no immediate material risks that would affect our strategy or performance, and so concluded that climate change remains an emerging risk for BTG.

Focusing on Scope 3 opportunities

Developments this year have not changed our initial conclusions around the nature of climate change as an emerging risk for BTG described above. We are therefore confident that it has had a limited effect on our accounting judgements and estimates this year, and have determined that it has had no material impact on our asset and liability valuations at 28 February 2023.

But, like other companies, we need to focus on our own impact on the environment through our emissions. We know that helping our customers reduce

their emissions through technology is an opportunity for us, but it is as yet relatively difficult to measure. So, while we are keeping a watching brief on further scenario work, we have begun a project with an external partner to fully analyse our Scope 3 emissions. This will help us set a meaningful target for reduction and add important milestones to our low-carbon action plan. It will also give us the data we need to be able to explore ways we can reduce emissions in partnership with our vendors and customers, and to determine whether we need to factor climate issues into our financial planning. For more detail about this work, see Our planet on pages 44 to 49.

Summary of our key climate-related risks

Risk description	Risk category	Potential impact	Mitigation actions
Transition risks			
Increased pricing of carbon (or carbon-intensive materials, goods and services), carbon reporting obligations, regulation of products and services, and exposure to litigation S	Policy and legal	The most likely effect of any changes would be an increase in operating costs. For example, reporting criteria could involve additional time and expertise, or a mandatory reduction in carbon emissions could require extra capital expenditure. Failure to comply with this risk, which is relatively low, could result in damage to our reputation and possible regulatory fines in certain instances.	We have several internal groups in place to manage sustainability, including the effects of climate change on our business. We continually monitor the regulatory and legal environment and take external advice as required. A large percentage of our supply chain is with Microsoft, which has a carbon negative date of 2030, so this mitigates for the majority of our supply chain Scope 3 emissions from 2030 onwards. We will continue to monitor our other vendors too.
Changes in customer working behaviour and infrastructure requirements M L	Market	These changes could mean that customers no longer needed so much of the hardware infrastructure that we supply, such as desktop computers and telephones. However, hardware makes up less than 5% of our business, and the software side is unlikely to be affected. So, the impact on us would be relatively small.	Given this risk is relatively insignificant, and within BTG's risk tolerance, we have not developed formal mitigation plans.
<p>The move away from full-time, office-based working precipitated by Covid-19 could accelerate if climate change-related extreme weather events routinely made it difficult to reach centralised workplaces. This could further encourage employees to work from home or at other less formal locations.</p>			

S Short term: one to three years

M Medium term: three to ten years

L Long term: ten to 27 years

Task Force on Climate-related Financial Disclosures (TCFD) continued

Risk description	Risk category	Potential impact	Mitigation actions
Transition risks continued			
Substitution of existing products and services that we currently sell, with new technologies that are not in our portfolio S M	Technology	On balance, we believe that most of the software we sell would not be affected by this scenario, which presents both risks and opportunities to BTG. If our customers moved away from our existing products and services, and we did not have relationships with vendors that sold the new in-demand products and services, we would lose sales. However, if we had built those relationships and could offer those new products and services, we would benefit from additional revenue opportunities.	We analyse market trends to keep up with changes in technology and customer preferences and draw on assistance and guidance from external advisors as required. We also have internal groups that focus on managing sustainability, including the effects of climate change on our business.
Concerned or negative perceptions from stakeholders that we have not responded appropriately to climate change S M L	Reputation	Damage to our reputation could affect all our stakeholders. Investors increasingly have a sustainability mandate – so a poor or damaged reputation could negatively affect our investment case. Customers often include a sustainability score when comparing suppliers. Reputational damage would lower our score, which, over time, would have a negative impact on our revenue. Our suppliers could also exert pressure on us if our reputation was tarnished. Any damage to our reputation could also affect our ability to attract and retain skilled staff, who now look to employers for more than just financial reward and advancement opportunities.	We monitor our external reputation through regular dialogue with our PR agency and external advisors and engagement with our institutional investors, our vendors' perception through periodic reviews, our customers' views through our customer net promoter score (NPS), and our people's views through our employee NPS and through briefings from our non-executive director with responsibility for staff engagement. We also create opportunities for engagement with all our stakeholders via our Annual Report and Annual General Meeting. We receive insights on our performance from our internal sustainability-focused groups. We take account of the feedback from these sources in the context of our public commitments.
Physical risks			
Increase in extreme weather events and variable weather patterns in the UK causing disruption to energy and related systems M L <p>Such physical risks could make it difficult for our people to get to work, or our vendors and subcontractors to deliver their products and services to us or our customers because, for example, of blocked roads or public transport failure.</p>	Acute/chronic	<p>None of our UK locations is at high risk of flooding – although in extreme weather conditions, commuting to us from elsewhere could be challenging. Mobile connectivity and network access means that our staff could work remotely during times of power interruption. Most of our IT requirements are hosted in the cloud, so we have limited physical connectivity to any one site. We have alternative power supply capabilities and multiple vendors can provide additional data connectivity, to serve locations with on-site computing needs.</p> <p>Travel issues are most likely to affect the relatively small hardware and IT services parts of BTG. Software, which makes up more than 94% of our gross invoiced income, is unlikely to be affected. Therefore, the impact on our market is likely to be relatively small.</p>	Given this risk is relatively insignificant, and within BTG's risk tolerance, we have not developed formal mitigation plans.

- S Short term: one to three years
M Medium term: three to ten years
L Long term: ten to 27 years

Summary of our key climate-related opportunities

Opportunity	Description	How we're responding
Expansion of cloud products and services S M	<p>The desire to be more sustainable – and limit climate change – is already encouraging organisations to move their IT servers to the cloud. This is likely to continue, and may accelerate, as the climate change-related risks of accessibility and physical damage prompt entities to untether themselves from their physical locations.</p>	<p>Since we are specialists in cloud technology, this trend would have positive effects on our sales. We already actively promote the sustainability benefits of moving to the cloud, along with our expertise in this.</p>
Demand for resource and energy efficiency S M L	<p>The growing demand for more energy efficiency, and for lower consumption of water and materials, presents opportunities for us, because customers are likely to need new technology to help them identify, monitor and manage risk and regulatory compliance of such climate-related matters.</p> <p>Factors linked to the drive for low-carbon energy – such as policy incentives, new technologies, participation in the carbon market and localised energy generation – could present more opportunities for us.</p>	<p>Given BTG's established relationships with leading vendors and our understanding of their software offerings, we are well positioned to provide appropriate solutions, as and when demand increases. This could enhance our product portfolios leading to additional revenues.</p>
Demand for sustainable hardware S M L	<p>Customers pursuing renewable energy programmes, energy-efficiency measures and resource replacements or diversification may need new, more sustainable hardware as well as associated software.</p>	<p>Although hardware sales are not our primary revenue stream, since the equipment we provide represents the latest, most environmentally friendly models, this could positively affect our revenue streams.</p>
Keeping up with social change S M	<p>Companies with a market-leading response to climate change could attract new suppliers, customers, investors, markets and assets. Some public sector frameworks already rate suppliers on their sustainability credentials.</p> <p>Being known for our sustainability credentials could help us to attract and retain skilled people. The IT jobs market is extremely competitive and increasing our headcount is essential for our growth.</p>	<p>We are raising our sustainability profile, for example with the launch of our low-carbon action plan, and we take account of the expectations of ESG ratings agencies with the aim of improving our scores. We are also proactive about our support for the environment and promote our support for the environment to our employees. For example, we have:</p> <ul style="list-style-type: none"> • Employee-led sustainability committees • An employee cycle-to-work programme • Flexible working hours, enabling employees to travel out of peak hours, cutting journey time and carbon emissions • Hybrid working, enabling staff to work from home some of the time, reducing carbon emissions • EV charging points in our staff car parks.

Task Force on Climate-related Financial Disclosures (TCFD) continued

Risk management

As disclosed last year, to reflect the importance of climate-related risks and our commitment to reporting against the TCFD's recommendations, climate assessments are integrated into our overall enterprise risk management (ERM) framework. This is set out in our risk report on pages 57 to 63 of this Annual Report. Here, we summarise the risk management process in relation to climate-related risk; there have been no changes since last year's report.

Board responsibilities – Audit Committee

The authority for delivering the risk framework is delegated by our Board to the Audit Committee, which formally reviews our risk performance twice a year, using our ERM framework. Since 2022/23, the Audit Committee has considered climate-related risks as a standing item on its agenda, underlying the importance of this area to our business.

Executive and operational management

Our CFO is the executive responsible for overseeing the implementation of our ERM framework, and compliance with it across the company. Risk management, which includes a review of climate-related risks together with other risks faced by the business, is a standing item on the agenda of our Executive Committee meetings, and formal feedback on risk management is integral to our operating company board meetings. This ensures accountability at each level for identifying, monitoring and proactively managing risk and compliance issues. Reviewing climate risk also forms part of Bytes's and Phoenix's Board agendas.

Our business processes ensure that the policies, procedures and control environment set by the Board, and our commitments on topics such as climate risk, are understood and adhered to

across BTG. The factors we consider in drafting policies and procedures include regulatory requirements, reputational and physical risks, and our opportunities to advise our customers on sustainable technology solutions. The evaluation criteria include relevance to our industry and sustainability, regulatory and legal risks, financial implications and the areas of our business affected.

We manage our environmental impacts through the framework of the ISO 14001 environmental management system. ISO 14001 also requires that risks and opportunities be identified, and processes put in place to mitigate and manage them. Both Bytes and Phoenix are certified to ISO 14001. For more about our principal risks and how we manage and mitigate them, see pages 60 to 63.

Metrics and targets

Given the nature of our business, and the risks and opportunities presented by climate change, as set out in the tables on pages 53 to 55, it is unlikely that we will develop specific measurements for each risk and opportunity as recommended by the TCFD. More meaningful are the overall targets we have set for carbon emissions, as part of our low-carbon action plan, and our announcement last year of our ambition to reach net zero by no later than 2040:

- To reduce our Scope 1, 2 and a subset of our Scope 3 category 1 greenhouse gas (GHG) emissions by 50% by 2025/26 from our baseline of 2020/21 (see Our planet on pages 44 to 49 for more on our targets)

- To reduce the rest of our Scope 3 GHG emissions by 50% by 2030
- To offset our operational emissions to be carbon neutral by March 2022 through carbon-credit approved schemes. We achieved this goal on target with carbon-offsetting company Ecologi and continue to maintain our carbon neutrality through this partnership.

Our net zero target is based on absolute emissions, but we are measuring against a revenue-intensity metric so we can assess the impact should the business significantly change.

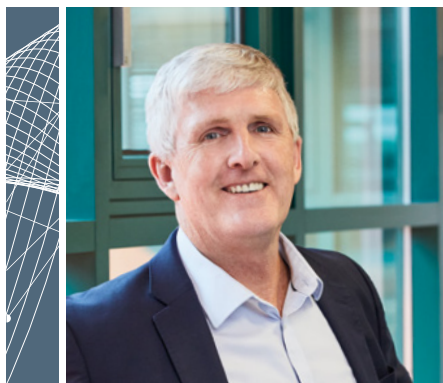
This year we worked with an external consultancy to review all Scope 3 categories and establish next steps and targets against each.

For more on our progress against our carbon reduction plan, and our ambitions to have our GHG emissions targets validated by the Science Based Targets initiative, see Our planet on pages 44 to 49.

Our methodologies for reporting environmental metrics are set out in the appendix on page 177.

Progressing on our risk management journey

We see risk management as a continuous journey and we review our policies and procedures throughout the year. At our annual risk appetite review meeting in February 2023, we agreed to maintain our cautious approach to risk.



“ We are confident that our enterprise risk management framework has kept us agile in a year with varied macroeconomic challenges.

Andrew Holden
CFO

Our enterprise risk management (ERM) framework remains fit for purpose and provides a robust approach to identify and manage risk. We are confident that our ERM framework has kept us agile in a year with varied macroeconomic challenges.

This year we strengthened our subsidiary board meetings, with the subsidiaries taking ownership of continually reviewing and updating the risks that are considered important to each business. The operational risks are consolidated, and then reviewed by the Audit Committee at BTG, with the materiality and impact of the risks analysed.

The BTG risks have been determined through this bottom-up approach, with all operational risks identified being discussed at a Group level. Since our last Annual Report, we have merged some risks, added an additional principal risk and reconfirmed the emerging risks.

Adding value through internal audit

PwC have been our internal audit partners since Q3 2021. For the past 18 months, our relationship with PwC has grown and we see it as a partnership that is continually adding value. We have had nine reviews, and been really pleased with the outcomes, which have identified some areas for improvements but nothing of critical concern. To increase our management capabilities and visibility, we have asked PwC to document processes in four main areas: hire to retire, purchase to pay, order to cash and record to report.

Managing new and emerging risks

We continued to closely monitor new and emerging risks, including the ongoing global risk of climate change and sustainability (see page 59). We also determined that social change may represent a future risk. Changes to

people's needs and perspectives, as happened when priorities shifted during the pandemic, and more generally with younger generations, may affect our ability to attract and retain talent. Like many risks, these could provide opportunities as well as downsides. For example, inflation might encourage customers to spend more on automation with us or, on the other hand, to cut investment in IT. We have mitigating plans to cover these different outcomes, such as broadening our portfolio of vendors and the solutions we can offer.

The invasion of Ukraine continues to affect the global economy, contributing to higher energy prices and inflation over the past year. We recognise the impact of this increased cost of living on our employees' welfare. These conditions are expected to continue into the next financial year and we have maintained this as a principal risk.

Cybersecurity continues to be a risk and was heightened because of the invasion of Ukraine. Our chief information security officer function and technology solutions reduce our risk, but the residual is covered by cyber insurance. This insurance has been renewed, at a greater cost than in the previous year due to the increased threat level.

Our robust risk identification, management and agile responses have enabled us to weather the turbulent economic conditions in 2022/23, as we recorded continued growth in employee numbers and profit. We are confident that we will remain resilient the coming year, through careful risk management.

Andrew Holden
CFO
22 May 2023

Risk management

How we manage risk

BTG operates within the information and communications technology sector in the UK and Ireland. This means we are exposed to the risks that financial, political, regulatory, technological and legal events might bring – risks that could adversely affect how or whether we achieve our strategic, operational, compliance and reporting objectives.

Our approach to risk is based on ERM. This is a process of identifying and addressing any potential barriers to achieving our strategic objectives and making the most of opportunities for competitive advantage.

Our ERM-based approach

The purpose of ERM is to achieve three key objectives:

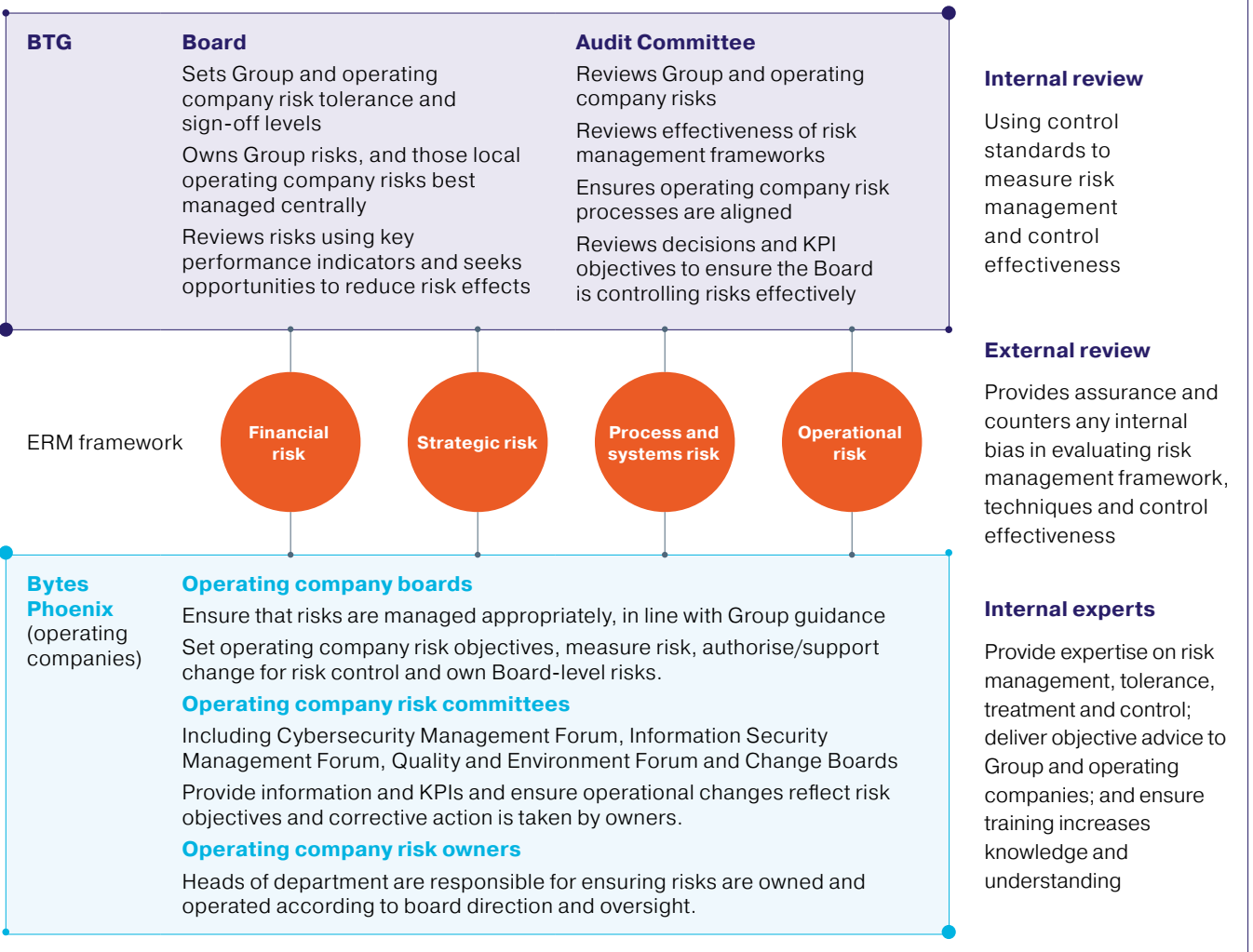
- **Oversight** – All critical risks are identified across BTG, and managed and monitored using a holistic approach that is consistent with our approved risk appetite
- **Ownership and responsibility** – The ownership of risk is assigned to individual senior managers who are responsible for identifying, evaluating, mitigating and reporting our risk exposure
- **Assurance** – The Board, its committees, BTG's Executive Committee and operational management have reasonable assurance that we are appropriately managing risk within defined levels so that it brings value to our organisation.

This ERM framework is the foundation of our risk management approach. It's tailored to suit the way we operate – from functional management, up through our operating company boards to Group level. It's about managing risk across the organisation and should enable us to deliver our strategy.

Our risk appetite

Our ERM framework reflects our risk appetite, which can be defined as cautious, with a low propensity for taking risks that may result in significant disruption to the company's operations. Our appetite shapes our decision making in determining how best to manage each of our principal risks. We carefully evaluate the level of operational risk we are prepared to take.

Our risk governance structure



We seek to minimise the risks from unforeseen operational failures in our business and have suitable mechanisms in place to identify issues and take necessary actions to minimise losses.

Day to day, our ERM is about:

- Identifying negative and positive risk circumstances
- Assessing how likely or serious those risks could be
- Creating and monitoring a strategy to respond to those risks
- Creating value for our shareholders and other stakeholders
- Helping our businesses achieve their objectives by proactively minimising the risk in their business plans.

Our ERM framework helps the Board to identify risks directly, to own risks that are beyond the risk tolerance of our subsidiary companies, and to collate a set of high-impact – or principal – risks relevant to our whole Group. In identifying risks, the Board is supported by our executives and managers across our business who are experts in their respective areas – for example, our cybersecurity specialists monitor cyberthreats.

BTG's directors have committed the organisation to a process of risk management that is aligned to the principles of the UK Corporate Governance Code, the Committee of Sponsoring Organizations of the Treadway Commission and the ISO 31000 Integrated Enterprise Risk Management Framework. The ERM methodologies are also defined through continued research and development, and are benchmarked against international best practice.

Although, through the Audit Committee, our Board has overall responsibility for risk – including establishing and maintaining our risk management framework and internal control systems and setting our risk appetite – everyone at BTG plays a part in protecting our business from risk and making the most of our opportunities.

No matter how diligently we monitor our environment or scrutinise sophisticated global intelligence data, risks can appear and accelerate with little or no warning. We remain confident that the time, resources and effort we have invested, and will continue to invest, in managing risk has prepared and equipped us to manage threats effectively. We believe this means we can provide our business,

people and customers with reasonable assurance of staying secure, so that we can continue to benefit from the opportunities in our sector.

Our primary emerging risk

Our primary emerging risk is climate change and sustainability, which we have not yet classified as a principal risk but which we may in the future. Our Board manages and monitors this emerging risk closely, with oversight from the Audit Committee. We put climate change and sustainability under particular scrutiny in 2022/23 and expect to continue to do so over the following year, having engaged an external third party to review our emissions data and expand our Scope 3 reporting. We also detail our efforts within the TCFD recommendations (see pages 50 to 56) and in our Sustainability Framework (www.bytesplc.com).

Climate change and sustainability

The physical impacts of climate change – such as heavier rain, flooding and heatwaves – are a potential risk to our people and facilities, and to those of our customers and suppliers. Climate change's effect on the economic landscape, technology use and regulation could also be a threat.

We're working to reduce our own impact on the climate. As a non-manufacturing business, the greatest contribution we can make to alleviating climate change is by supporting our customers in using technology in a sustainable way, particularly in moving their IT products and services to the cloud. However, we're doing all we can to reduce our own environmental impact.

In 2021/22 we published our sustainability framework, which also sets out our sustainability governance, targets and how we will monitor and measure our progress. During last year, we also launched our low-carbon action plan, which is being updated in 2023 on the basis of additional data from our work to expand our Scope 3 emissions reporting. The plan includes a commitment to reducing our carbon emissions over coming years, which we are positioning against Science Based Targets. We remain aligned to the ISO 14001 environmental operating standard. Our approach supports organisations who are committed to working with sustainable suppliers, in line with our strategy of delivering high-net-value solutions.

Our Board continues to analyse what issues could emerge from future climate change-related legislation or commitments by government, and their effects on this emerging risk.

Our secondary emerging risk

In 2022/23 we identified a second emerging risk around social change, which has not developed into a full risk yet. Younger generations and post-pandemic attitudes could change the way we work and how we need to respond to our people. To identify changes, we will closely monitor our recruitment, attrition rate and insights from staff, and review this risk at every opportunity.

Keeping pace with social change

Our customer and talent pool might be limited if we are not seen as a progressive organisation. People, particularly from younger generations, are looking to engage with companies that do the right thing when it comes to being a responsible part of society. As younger generations have joined the workforce, we are starting to see changes in expectations around work-life balance. This is seen through generational and wider cultural change, as well as since the Covid-19 pandemic, and has led some to reconsider their life goals.

We have long identified that our staff need more than just to be well paid: they need opportunities to develop, flexibility in their working arrangements and for the business to feel like a cultural fit. We have taken steps this year to meet these expectations – by increasing the initial annual leave allowance, introducing company-wide personal development plans for all staff and increasing maternity pay. We have also introduced the option for staff to take two additional wellness days each year, plus a volunteering day. We regularly listen to our employees through Insights submissions and forums, and encourage a culture of openness.

Generational changes have also brought more open minds, particularly in relation to gender, race, religion, sexual orientation and a desire to treat everyone equally – as well as to accommodate and celebrate difference. We already hold these values at our core. However, we need to continually monitor and keep pace with these changes. Not doing so could affect our ability to attract and retain not only employees but customers, when they also start to reflect new social values and require their supply chain to do the same.

Our principal risks and uncertainties

In 2022/23, the economic situation remained as uncertain as the previous year, with the continued crisis in Ukraine and shocks to the market from UK Government announcements. Although we performed strongly and managed risks well in 2021/22, this year we amended our principal and emerging risks to account for changes in the market, in society and with our vendors.

As we describe in the following table, this includes:

- The additional financial risk of an increased aged debt profile, with customers slower to pay and the possibility of bad debts
- Amending the Security of supply risk to be called the Vendor concentration risk. By taking the emphasis off hardware, which is a small part of our business, we have highlighted a risk where we are over-reliant on a single vendor
- Merging the two separate risks called Commoditisation and Disintermediation into a single risk called Competition, because the risk and mitigating actions overlapped
- Merging the Keeping pace with digital change risk with the Technology failure risk into a single risk called Business continuity failure, because these risks are core to our business activities
- Evolving the Attract and retain staff risk by adding the element 'while keeping our culture'.

Financial	1 Economic disruption	Risk owner CEO
	<p>The risk</p> <p>This includes the impact of the crisis in Ukraine, the uncertainties caused by global economic pressures and geopolitical risk within the UK post-Brexit.</p>	<p>How we manage it</p> <p>We have so far continued to perform well during the conflict in Ukraine, and under the current effects of inflation, the cost-of-living crisis and leaving the EU. Despite the economic shocks of the past year and continued pressure from the Ukraine conflict, we have not seen an adverse impact on our business. These real-life experiences have shown us to be resilient through tough economic conditions. The diversity of our client base has also helped to maintain and increase business in this period. We are not complacent, however – economic disruption remains a risk and we keep operations under constant review.</p>
	<p>The impact</p> <p>Major economic disruption – including the risk of continuing high inflation (see below) and potentially higher taxes – could see reduced demand for software licensing, hardware and IT services, which could be compounded by government controls. Lower demand could also arise from reduced customer budgets, cautious spending patterns or clients 'making do' with existing IT. Economic disruption could also affect the major financial markets, including currencies, interest rates and the cost of borrowing. Economic deterioration like this could have an impact on our business performance and profitability.</p>	
	2 Margin pressure	Risk owner MDs of subsidiary businesses
	<p>The risk</p> <p>BTG faces pressure on profit margins from myriad directions, including increased competition, changes in vendors' commercial behaviour, certain offerings being commoditised and changes in customer mix or preferences.</p>	<p>How we manage it</p> <p>Profit margins are affected by many factors at customer and micro levels. We can control some of the factors that influence our margins; however, some factors, such as economic and political ones, are beyond our control. In the past year we have sought to increase margins where possible; cost increases from vendors have grown our margins organically. Our diverse portfolio of offerings, with a mix of vendors as well as a mix of software and services, has enabled us to absorb any changes – and we continue to innovate to find new ways to deliver more value for our clients. Services delivered internally are consistently measured against competition to ensure we remain competitive and maximise margins. We aim to agree acceptable profit margins with customers upfront. Keeping the correct level of certification by vendor, early deal registration and rebate management are three methods deployed to ensure we are procuring at the lowest cost and maximising incentives earned. This risk area is reviewed monthly.</p>
	<p>The impact</p> <p>These changes could affect our business performance and profitability.</p>	

Financial	3 Changes to vendors' commercial model	Risk owner CEO
	<p>The risk</p> <p>BTG receives incentive income from our vendor partners and their distributors. This partially offsets our costs of sales but could be significantly reduced or eliminated if the commercial models are changed significantly.</p>	<p>How we manage it</p> <p>We maintain a diverse portfolio of vendor products and services. Although we receive major sources of funding from specific vendor programmes, if one source declines, we can offset it by gaining new certifications in, and selling, other technologies where new funding is available.</p> <p>We closely monitor incentive income and make sure staff are aligned to meet vendor partner goals so that we don't lose out on these incentives. Close and regular communication with all our major vendor partners and distributors means we can manage this risk appropriately. In some areas we have seen a positive change in vendors' commercial terms, where we have been able to adapt practices.</p> <p>The materiality of this risk has not yet been realised, but it remains a risk.</p>
	<p>The impact</p> <p>These incentives are very valuable and contribute to our operational profits. Significant changes to the commercial models could put pressure on our profitability.</p>	
	4 Inflation	Risk owner CFO
	<p>The risk</p> <p>Inflation in the UK, as measured by the Consumer Price Index (CPI), was 10.4% in the year to February 2023, which is driven by three main drivers: electricity and gas, transport, and food and non-alcoholic beverages.</p>	<p>How we manage it</p> <p>Our ongoing focus on software asset management means that we continue to advise customers in the most cost-effective ways to fulfil their software needs. Changes to economic conditions mean many organisations will look to IT to drive growth and/or efficiency.</p> <p>Staff costs are the largest part of our overheads, so our attention is focused on our staff and their ability to cope with the rising cost of living.</p> <p>Externally, we have seen an increase in customers looking to avoid increased staff costs by outsourcing their IT through managed services. This may create an opportunity to accelerate our service offerings.</p>
Strategic	<p>The impact</p> <p>This could create an environment in which customers redirect their spending from new IT projects to more pressing needs.</p> <p>Wage inflation and increased fuel and energy costs have a direct impact on our underlying cost base.</p>	
	5 Increasing debtor risk	Risk owner CFO
	<p>The risk</p> <p>As customers face the challenges of inflation and rising interest rates in the current economic environment, there is a greater risk of an increasing aged debt profile, with customers slower to pay and the possibility of bad debts.</p>	<p>How we manage it</p> <p>Our credit collections teams are focused on collecting customer debts on time and maintaining our debtor days at targeted levels. Debt collection is reported and analysed continually and escalated to senior management as required.</p> <p>A large part of a successful outcome is maintaining strong, open relationships with our customers, understanding their issues and ensuring our billing systems deliver accurate, clear and timely invoicing, so that queries can be quickly resolved.</p>
	<p>The impact</p> <p>This could adversely affect our businesses' profitability and/or cash flow.</p>	
	6 Vendor concentration	Risk owner CEO
	<p>The risk</p> <p>Over-reliance on any one technology or supplier could pose a potential risk, should that technology be superseded or be exposed to economic down cycles, or if the vendor fails to innovate ahead of customer demands.</p>	<p>How we manage it</p> <p>We work with our vendors as partners – it is a relationship of mutual dependency because we are their route to the end customer. We maintain excellent relationships with all our vendors, and have a particularly good relationship with Microsoft, which relies on us as a key partner in the UK. Our growth plans, which involve developing business with all our vendors, will naturally reduce the risk of relying too heavily on any single one.</p> <p>Hardware is not a core element of our business, but is a growing sector, so we will be monitoring supply closely. However, we monitor the geopolitical situation continuously and work closely with suppliers to stay fully informed, so that we can respond quickly should the landscape change. With a diverse portfolio of suppliers and vendors, we are able to offer alternatives to customers if there is a particular vendor with a supply issue. Given this risk is largely driven by geopolitical and macroeconomic factors, we maintain a watching brief so that we can react swiftly if we need to.</p>
Strategic	<p>The impact</p> <p>Too heavy a reliance on any one vendor could have an adverse effect on our financial performance, should that relationship break down.</p> <p>Global shortages of computer hardware and components could also reduce customers' ability to purchase hardware for internal use. This could lead to delays in customers purchasing software, which is linked to or dependent on the hardware being available. Reduced access to computer chips could also slow down vendor innovation, leading to delays in the creation of new technology to resell to customers.</p>	

Strategic	7 Competition	Risk owner CEO
	<p>The risk</p> <p>Competition in the UK IT market, or the commoditisation of IT products, may result in BTG being unable to win or maintain market share.</p> <p>Mergers and acquisitions have consolidated our distribution network and absorbed specialist services companies. This has caused overlap with our own offerings.</p> <p>A move to direct vendor resale to end customers (disintermediation) could place more pressure on the market opportunity.</p> <p>Platforms, like marketplaces, with direct sales to customers could also be seen as disintermediation.</p>	<p>How we manage it</p> <p>We closely watch commercial and technological developments in our markets.</p> <p>The threat of disintermediation by vendors has always been present. We minimise this threat by continuing to increase the added value we bring to customers directly. This reduces clients' desire to deal directly with vendors.</p> <p>Equally, vendors cannot engage with myriad organisations globally without the sort of well-established network of intermediaries that we have.</p> <p>We currently work with AWS Marketplace and can sell to our vendors through their platform, which gives discounts to the customer versus buying directly.</p> <p>Currently, there is no sign of any commoditisation that would be a serious threat to our business model in the short or medium term.</p>
	<p>The impact</p> <p>This would have a material adverse impact on our business and profitability.</p> <p>A huge change would need a big shift in business operations, including a strategic overhaul of the products, solutions and services that we offer to the market.</p> <p>More consolidation could lead to less competition between vendors and cause prices to value-added resellers, like us, to rise and service levels to fall. Direct resale to customers could also increase.</p> <p>This could erode reseller margins, given the purchase cost is less for the distributor than the reseller. This could reduce our market, margin and profits.</p>	
	8 Relevance and emerging technology	Risk owner CEO
	<p>The risk</p> <p>As the technology and security markets evolve rapidly and become more complex, the risk exists that we might not keep pace and so fail to be considered for new opportunities by our customers.</p>	<p>How we manage it</p> <p>We stay relevant to our customers by:</p> <ul style="list-style-type: none"> – Continuing to offer them expert advice and innovative solutions – Specialising in high-demand areas – Holding superior levels of certification – Maintaining our good reputation and helping clients find the right solutions in a complex, often confusing IT marketplace. <p>We defend our position by keeping abreast of new technologies and the innovators who develop them. We do this, for example, by running a cyber accelerator programme for new and emerging solution providers, joining industry forums and sitting on new technology committees. We have expanded the number and range of our subject matter experts, who stay ahead of developments in their areas and communicate this internally and externally.</p> <p>By identifying and developing bonds with emerging companies, we maintain good relationships with them as they grow and give our customers access to their technologies. This is core to our business, so the risk from this is relatively low.</p>
	<p>The impact</p> <p>As customers have wide choice and endless opportunities to research options, if we do not offer cutting-edge products and relevant services, we could lose sales and customers, which would affect our profitability.</p>	

Processes and systems	9 Cyberthreats – direct and indirect The risk Breaches in the security of electronic and other confidential information that BTG collects, processes, stores and transmits may give rise to significant liabilities and reputational damage. The impact If a hacker accessed our IT systems, they could infiltrate one or more of our customer areas. This could provide indirect access to, or the intelligence required to compromise or access, a customer environment. This would increase the chance of first- and third-party risk liability, with the possible effects of regulatory breaches, loss of confidence in our business, reputational damage and potential financial penalties.	Risk owner Chief Information Security Officer How we manage it We use intelligence-driven analysis, including research by our internal digital forensics team, to protect ourselves. This work provides insights into vulnerable areas and the effects of any breaches, which allow us to strengthen our security controls. We have established controls that separate customer systems and mitigate cross-breaches. Our cyberthreat-level system also lets us tailor our approach and controls in line with any intelligence we receive. Our two subsidiaries share insights and examples of good practice on security controls with one another and the security operations centre located at Phoenix's offices provide the whole business with up-to-date threat analysis.
	10 Business continuity failure The risk Any failure or disruption of BTG's IT infrastructure or business applications may negatively affect us. Not keeping pace with changes in technology might also mean we are unable to advise our customers and so lose market share. The impact Systems and IT infrastructure are key to our operational effectiveness. Failures or significant downtime could hinder our ability to serve customers, sell solutions or invoice. Major outages in systems that provide customer services could limit clients' ability to extract crucial information from their systems or manage their software.	Risk owner CFO How we manage it Our Chief Technology Officer and Head of IT effectively manage and oversee our IT infrastructure, network, systems and business applications. All our operational teams are focused on the latest vendor products and educate sales teams appropriately. Regular IT audits have identified areas of improvements, while ongoing reviews make sure we have a high level of compliance and uptime. This means our systems are highly effective and fit for purpose. For business continuity, we use different locations, sites and solutions to limit the impact of service outage to customers. Where possible, we use active resilience solutions – designed to withstand or prevent loss of services in an unplanned event – rather than just disaster-recovery solutions and facilities, which restore normal operations after an incident. Increased automation means a heavier reliance on technology. Although it reduces human error, it could potentially increase our reliance on other vendors.
Operational	11 Attract and retain staff while keeping our culture The risk The success of BTG's business and growth strategy depends on our ability to attract, recruit and retain a talented employee base. Being able to offer competitive remuneration is an important part of this. Three factors are affecting this: <ul style="list-style-type: none"> – The CPI is driving wage inflation – There is a skills shortage in the IT sector – With remote or hybrid working becoming the norm, potential employees in traditionally lower-paid geographical regions are able to work remotely in higher-paying areas like London. Maintaining BTG culture also affects how we attract and retain staff, which growth can change.	Risk owner CEO How we manage it We continually strive to be the best company to work for in our sector. One of the ways we manage this risk is by growing our own talent pools. We've used this approach successfully in our graduate intakes for sales, for example. BTG also runs an extensive apprenticeship programme to create a new security skill set. We also look to make sure management has appropriate time and resources to coach new staff. Maintaining our culture is important to retain current staff, which we do through regular communications, clubs, charity events and social events.
	The impact Excessive wage inflation could either drive up costs or mean we are unable to attract or retain the talent pool we need to continue to deliver our planned growth.	

Non-financial information statement

We are required to include a non-financial information statement in our strategic report, under Sections 414CA and 414CB of the Companies Act 2006, as amended by The Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations 2016. We cover the information required by these regulations in our business model (pages 14 and 15), sustainability review (our people, our communities, our planet – from pages 34 to 49), and our risk report and our viability statement (pages 57 to 63 and page 65).

More about us

Here we summarise where you can find more information – in this Annual Report and on the websites of BTG, Bytes and Phoenix – for each of the key areas of disclosure that the Companies Act 2006 requires.

Environmental and social matters

	Relevant policies
<p>This year we provided more disclosure on BTG's environmental and social commitments, including again reporting on the Task Force on Climate-related Financial Disclosures (TCFD).</p> <p>Progress on our environmental and social approach including expanding our emissions reporting to cover six categories of Scope 3 and exceeding our target on Scope 2 by switching to renewable electricity. This year 172 days were spent by our employees, volunteering for local charities and in their communities.</p> <p>For more information, see our sustainability review from pages 34 to 49 and the TCFD section on pages 50 to 56.</p>	<p>BTG: Sustainability framework; CSR policy statement; Low-carbon action plan</p> <p>Bytes and Phoenix: Environmental matters; CSR/Sustainability</p>

Our employees

<p>Our positive and inclusive culture, good employee engagement, and commitment to diversity, equality and inclusion are integral to BTG's success. We support initiatives to help improve diversity, equality and inclusion, with progress monitored by senior management and the Board.</p> <p>Our Board acknowledges there is more we need to do to improve diversity and we will continue with our efforts. Employees can report whistleblowing concerns directly to the CEO or through independent channels. We have a formal process for investigating whistleblowing reports. There were no whistleblowing reports this financial year.</p> <p>Encouraging outcomes of our employee engagement included achieving a 70 employee net promoter score, and Bytes and Phoenix being Great Place to Work-certified in 2022.</p> <p>For more information, see our people section on pages 36 to 41 the Board's year on pages 74 and 75, Stakeholder engagement on page 77, and the Nomination Committee report on pages 92 to 95.</p>	<p>Bytes and Phoenix: Health and safety; Diversity, equality and inclusion; Gender pay gap report</p>
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Respect for human life

<p>We believe that modern slavery and human trafficking are the key human rights areas that our operations could be affected by. Given, though, that we operate predominantly in the UK and Ireland, where established legislation and systems protect human rights, we believe that this is not a material issue for BTG.</p>	<p>BTG: Modern slavery and human trafficking policy statement; Supplier code of conduct</p> <p>Bytes and Phoenix: Modern slavery</p>
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Anti-corruption and anti-bribery

<p>We operate anti-corruption and anti-bribery procedures that support compliance with the UK Bribery Act and other legislation.</p>	<p>Bytes and Phoenix: Fraud, bribery and money laundering</p>
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Business model and KPIs

Our business model includes non-financial inputs and outputs. Our Board regularly reviews both financial and non-financial KPIs, which are relevant for monitoring the performance of the business and have a clear link to delivering against our strategy. We disclose performance against our KPIs. For more information, see our business model on pages 14 and 15 and our KPIs on page 18.

Our policies are subject to periodic review, with updates made as and when required. To find out more about our policies visit bytesplc.com/sustainability/governance, bytes.co.uk/company/corporate-policies and phoenixs.co.uk/about-us/corporate-policies

Our viability statement

Our Board of directors has evaluated BTG's prospects over a three-year period from the end of the financial year, in line with provision 31 of the UK Corporate Governance Code.

The directors have chosen a viability assessment covering a period of three years to February 2026. They believe this is the most appropriate and realistic time over which they can anticipate events and assess how existing risks are developing and new risks emerging.

Operationally, this is the time over which BTG has a view of:

- Major customer contracts, typically Microsoft Enterprise Agreements, which run for three years
- The availability of external funding – our new HSBC revolving credit facility – which runs until May 2026. Currently this facility has not been drawn against and our cash flow forecast for the next year shows that it is unlikely to be so in that period. BTG will consider extending the facility if required closer to its end date, and currently does not foresee this being an issue.

The Board has performed a robust risk assessment of the principal risks and uncertainties facing BTG, as outlined from page 57. These are risks that may pose a threat to our future financial performance, our ability to meet future commitments and liabilities as they fall due, and the ongoing viability of our business model.

BTG's gross invoiced income and gross profit increased by 19.1% and 20.7% respectively in 2022/23, demonstrating our ability to grow against our key performance metrics while remaining resilient to the impact of external disruptions. The directors believe this is due to our mix of customers in the corporate and public sectors, strong relationships with our primary vendors, the demonstrable value we add to our customers and our highly skilled employees establishing competitive advantage in an increasingly digital age.

Central to the Board's conclusion that BTG and our operating companies will

continue to operate and meet our future commitments and liabilities over the next three years are:

- The relatively limited impact of external factors on customer expenditure
- Our proven ability to secure strong levels of customer renewals and to grow the business by winning new customers.

We reached this conclusion having reassessed our strategy in November 2022, and having then reconsidered the viability of BTG. We carried out more stress tests, which helped us make sure that our assessment accurately reflected the changes to our business in the past year – such as our evolving risk management process, and the overall industry and economic climate.

How we stress tested our business

In our stress testing, we evaluated our viability by reconsidering:

- The market forecast models for our industry
- Our current and future strategies
- The potential financial impacts of our stated principal risks.

The principal risks were considered collectively – rather than on a case-by-case basis – in the context of the uncertainty around inflation, the crisis in Ukraine, ongoing supply chain issues related to Covid-19, and the UK leaving the EU.

In assessing our viability, we applied potential downside changes to three key financial measures – gross invoiced income, gross profit and debtor collections – to see how their performance would alter if our principal risks and uncertainties were realised.

Such a realisation is considered remote, given the effectiveness of our risk management and control systems and our current risk appetite. But we focused on these three financial measures because we believe they're the most likely to be adversely affected – and to create

a progressively negative impact if they deteriorate continuously over the viability-assessment period.

We set out our high-level operational mitigations below. We also considered the extent to which negative impacts on the three financial measures could be offset by savings in discretionary spend and by freezing future pay and recruitment. More automatic mitigation is 'built in', because commission payments would fall in line with the reduced gross profit and lower dividend payments that come with reduced profit after tax.

Our most extreme downside scenario – see downside case two, below – is set within the context of uncertainty around the current economic conditions and geopolitical environment. In this scenario, we considered the potential effect of a generalised economic downturn on our customers' spending patterns. We also took the most extreme considered downside for each of the three financial measures and considered that only partial mitigation would be possible.

Details of our stress testing

BTG compared a base case scenario and two downside scenarios. In each of the downside cases, we considered two levels of mitigation, full and partial:

- Base case – this was forecast using the growth rates included in the Board-approved budget for the year ending 28 February 2024, extended until 28 February 2026
- Downside case one – this severe but plausible scenario modelled gross invoiced income reducing by 10% year on year, gross profit reducing by 15% in the same period, and debtor collection periods extending by five days (all from June 2023)
- Downside case two – this stress scenario modelled both gross invoiced income and gross profit reducing by 30% year on year, with debtor collection periods extending by ten days (again, all from June 2023)

- Partial mitigation measures – for both downside cases, we modelled freezing future pay and new recruitment from March 2024, with a built-in reduction of commission in line with falling gross profit
- Full mitigation measures – these included, in addition to the partial measures, modelling headcount reductions from March 2024, in line with falling gross profit.

The impacts of climate change were included in our three scenarios. As the Board and management consider that the impacts will be immaterial, they fall within the current (base case) scenario.

The pay and headcount mitigations applied in the downside scenarios are within BTG's control and could be implemented quickly to respond to downward trends – as could a reduction in the level of shareholder dividends, in line with the modelled reductions in profit after tax. These mitigations have not been applied until 1 March 2024 however, because we are already substantially committed to pay-related costs for the year ending 28 February 2024.

The Board believes that all mitigations have been applied prudently and are within BTG's control. Depending on how severe the impacts of the modelled downside scenarios are, the Group could activate additional levels of mitigation – in particular, BTG could override budgeted pay-related costs to trigger mitigations earlier than March 2024. The Board would also be able to take more action to lower our operating cost base, given the flexibility of our business model.

Our confirmation of viability

Having assessed the financial impact on our results of these stress-tested models, the Board concluded that our reserves of cash, our ability to reduce spending and the availability of the revolving credit facility up to May 2026 – along with our projected revenue and profitability over the review period – would mean we could continue trading over the next three years, even if we faced additional uncertainties.

Section 172 statement

The Board embraces the principles of the UK Corporate Governance Code, including those aimed at promoting transparency around stakeholder engagement. We consider the interests of the Group's investors, customers, suppliers and vendors, and communities and the environment in our decision making and in how we deliver our strategy to achieve long-term, sustainable success.

The Board continues to ensure it acts in good faith and to promote the success of the Group for the benefit of shareholders and, in doing so, having regard for the Group's key stakeholders and other matters set out in Section 172(1) (a) to (f) of the Companies Act 2006.

More information on how we, as a Board, have fulfilled our duties to our stakeholders under Section 172 of the Companies Act 2006 can be found on pages 76 to 80.

Governance report

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Board of directors

Our directors draw on a rich pool of collective industry knowledge and skills and experience of UK and international business, gained from senior roles in other leading companies.



Patrick De Smedt

Chair

Nationality Belgian

Age 67

Appointed 15 October 2020

Patrick is Chair of BTG and of our Nomination Committee and is also a member of our Remuneration Committee.

Patrick has a strong track record in international business, including 23 years in senior roles at Microsoft. During his two decades at Microsoft, he founded the company's Benelux subsidiaries, led the development of its Western European business and served as chairman of its Europe, Middle East and Africa region.

Since leaving Microsoft in 2006, Patrick has served on the boards of a diverse range of European public and private equity-backed companies. As well as leading our Board, he is chairman of EMIS Group plc and Nasstar Holdings Ltd, and senior independent director of PageGroup plc. He was previously non-executive director and chairman of the remuneration committee of Victrex plc, senior independent director and chairman of the remuneration committee of Morgan Sindall plc and Anite plc, and interim chairman of KCOM Group plc.

External board appointments

EMIS Group plc, PageGroup plc, Nasstar Holdings Ltd.

Committees

Nomination

Remuneration

Attends by invitation

Audit



Neil Murphy

Chief Executive Officer

Nationality British

Age 59

Appointed 7 October 2020

Neil became CEO of BTG in 2020, having been MD of the Group since 2000. He has more than 30 years' experience in the IT sector. Before his appointment as Bytes MD, Neil was company Sales Director for three years, prior to which he was a sales manager with ICL (now part of the Fujitsu group) for seven years. Neil has overseen the largely organic growth and development of the Bytes Group to become a significant value-added reseller in the UK. Neil and Keith Richardson, the previous Group CFO, were the architects of BTG's distinctive can-do culture, with its strong emphasis on customer service, employee engagement and ethical values.

External board appointments

None

Committees

Attends by invitation

Audit

Nomination

Remuneration



Andrew Holden

Chief Financial Officer

Nationality British

Age 56

Appointed 21 October 2021

Andrew joined BTG as COO on 1 June 2021 from JSE-listed technology company Altron Limited, BTG's former parent company, from which it demerged in 2020. He was subsequently appointed as BTG's CFO and a Board member on 21 October 2021. Andrew has extensive financial and operational experience in the information and communications technology sector, having spent more than 27 years at Altron, the last 15 years in senior leadership roles. His most recent Altron position was that of COO, which he held for five years, including a period when he was also acting CFO. Combined with his strong financial and commercial acumen, Andrew has a proven record of delivering insights into strategy implementation and executive decision making.

External board appointments

None

Committees

Attends by invitation

Audit

Nomination

Remuneration



Dr Alison Vincent

Independent
non-executive director

Nationality British

Age 58

Appointed 6 November 2020

Alison is an accomplished IT industry leader, with experience in cybersecurity, R&D, product management and business development, and with particular expertise in digital strategy, innovation and M&A. Her recent roles include being group chief information security officer at HSBC from 2017 to 2018, and chief technology officer at Cisco from 2015 to 2017. She has also held technical leadership roles at NDS, Micro Focus International plc and IBM. Alison is a non-executive director of SEI Investments (Europe) Ltd, Synectics plc and Connected Places Catapult. She is a lay member of council at Southampton University and a technical advisor to Telesoft Technologies, Arqit and UMotif. Alison has a PhD in cryptography and combinatorics from London University and is a fellow of the Royal Academy of Engineering, the British Computer Society and the Institution of Engineering and Technology.

External board appointments

Synectics plc, SEI Investments (Europe) Ltd, Connected Places Catapult.

Committees

Audit

Nomination

Remuneration



Mike Phillips

Senior independent
non-executive director

Nationality British

Age 60

Appointed 6 November 2020

Mike has served as an executive director at UK-listed companies for 17 years, most recently with Micro Focus International plc as CFO from 2010 to 2018, and as M&A director from 2018 to 2019. Before that, Mike was group finance director, then CEO, at Morse plc, which he left in 2010 following its turnaround and successful corporate sale to 2e2. He was previously group finance director at Microgen plc, playing a lead role in its transformation to a successful international software and services business. His earlier roles include corporate finance work at Smith & Williamson and leading the UK technology team at PricewaterhouseCoopers. Mike qualified as a chartered accountant at Peat Marwick Mitchell & Co (now KPMG). He was a non-executive director of Parity Group plc from 2011 to 2013.

External board appointments

None

Committees

Audit

Nomination

Remuneration



Dr Erika Schraner

Independent
non-executive director

Nationality British, American, Swiss

Age 55

Appointed 1 September 2021

Erika brings more than 25 years' experience in senior leadership positions to the Board of BTG. During her executive career, she spent more than 18 years working in Silicon Valley and held senior professional services roles with Ernst & Young and PricewaterhouseCoopers. Erika earned a PhD in management science and engineering at Stanford University. In 1994, she began her executive career with IBM, going on to hold roles at REL Consultancy Group, Computer Science Corporation and Symantec Corporation. During her tenure at Symantec, Erika led the team responsible for M&A in its sales and services division, completing 16 acquisitions including the \$13.5 billion merger between Symantec and Veritas. Erika further built her transaction experience at Ernst & Young, where she led the firm's technology M&A advisory services for the Americas, and more recently with PwC, where she was the UK leader for M&A integration services and technology, media and telecommunications M&A advisory services.

External board appointments

JTC plc, Pod Point Group Holdings plc, Videndum plc, HgCapital Trust plc.

Committees

Audit

Nomination

Remuneration

Board of directors continued



David Maw
Non-executive director

Nationality British
Age 72
Appointed 15 October 2020
(stepping down 12 July 2023)

David has been a non-executive director of the Bytes Group since 2000. He has extensive experience in international commerce, having held executive positions for a major global company. He started his career as a certified accountant (FCCA) before becoming a senior manager with Peat Marwick Mitchell & Co in Cardiff and Fiji, gaining experience in audit, M&A and receiverships. He then joined Rank Xerox where, in more than 20 years with the business, he was a board member of its holding company and several international subsidiaries. At Rank Xerox, where he was based in both the UK and the US, his roles included being director for tax, treasury and leasing, having responsibility for the company's M&A in EMEA, and being controller of its European manufacturing operations. David's two decades of support for Bytes's UK management team accompanied its growth from a small business to its current position as a FTSE 250 company. His previous non-executive positions at Bytes UK include being chair of the company and its audit committee and a member of its remuneration committee.

External board appointments
None

Committees
Attends by invitation
Audit
Nomination
Remuneration



WK Groenewald
Group Company Secretary

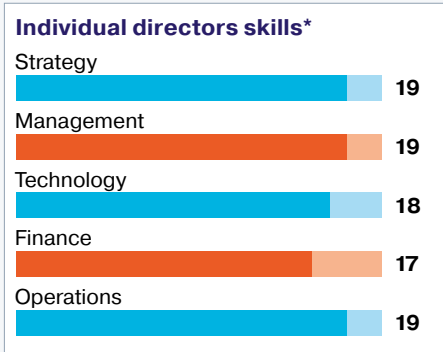
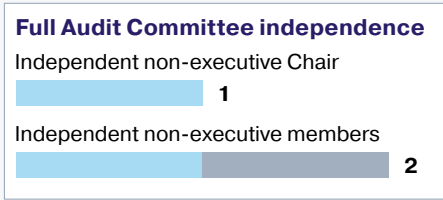
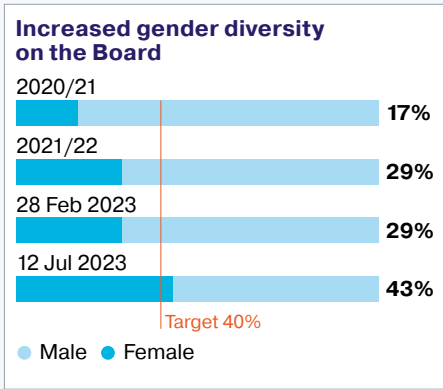
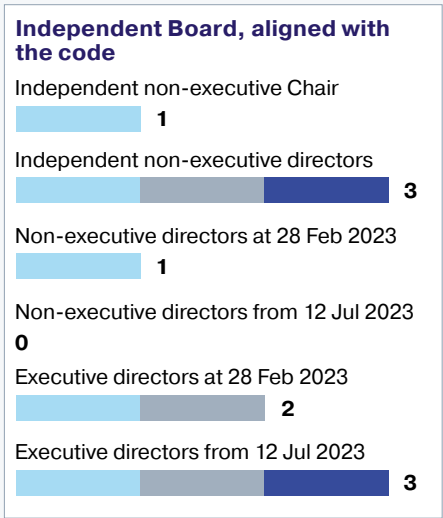
Nationality South African
Age 40
Appointed 7 October 2020

WK has substantial experience in commercial law, corporate governance and listings requirements. As Group Company Secretary of BTG, his role also includes the position of General Counsel, where he is responsible for the Group's legal function, and oversight of sustainability and ESG.

WK spent seven years at JSE-listed technology company Altron Limited, Bytes's former parent company, including four years as Group Company Secretary, before joining BTG. He holds a BCom LLB and LLM in corporate law and was admitted as an attorney to the High Court of South Africa. He also holds a post-graduate qualification in general management from the Gordon Institute of Business Science (GIBS) and is a fellow of The Chartered Governance Institute UK & Ireland. Before joining Altron, WK held legal and corporate governance positions at BDO and JSE sponsor and M&A advisory firm Merchantec Capital.

Strengthening our governance through improved independence and diversity

During the year we continued to focus on independence and diversity, as illustrated in the charts below and set out in more detail in this report.



This data reflects Board changes post year end.
* Scored from a maximum of 21.

Executive Committee

Our Executive Committee is made up of Neil Murphy, our CEO, Andrew Holden, our CFO – whose biographies are set out on page 68 – and the MDs of our two businesses, Phoenix's Sam Mudd and Jack Watson from Bytes. The committee meets monthly and helps to develop and execute BTG's strategy. Individual Executive Committee members are responsible for leading their directorates and ensuring they are run effectively and efficiently.



Sam Mudd

MD, Phoenix Software

Nationality British

Age 54

Appointed as MD November 2014

Sam joined Phoenix in November 2003, having previously held senior roles at WordPerfect, Novell Inc. and Trustmarque Solutions. Sam became MD of Phoenix in 2014, overseeing a period of significant growth during which Phoenix has won numerous awards, including Microsoft UK Partner of the Year 2021. In October 2020, Sam won the Industry Achievement Award at IT reseller magazine CRN's Women in Channel Awards. Two years earlier, she was named 2018 Business Leader of the Year at the Women in IT Awards. Outside her work with the Group, Sam is a member of the Board of Trustees of Scarborough's Saint Catherine's Hospice.

To be appointed to the BTG Board 12 July 2023

Sam will take up an additional position as an executive director on the Board at the conclusion of our next Annual General Meeting on 12 July 2023. Bringing more than 20 years' experience in leadership roles to the Board, Sam is a high-calibre managing director whose skills and business acumen have led Phoenix's success.



Jack Watson

MD, Bytes Software Services

Nationality British

Age 39

Appointed as MD March 2021

Jack joined Bytes as a new business account executive in November 2006. He was promoted to sales manager in 2012 and grew his team's sales profit by more than 200% in less than four years. He developed the '7 steps' sales programme, which boosted individual sales performance and accelerates new talent in the organisation. Bytes's sales profitability doubled during Jack's five years as Sales Director, from 2016 to 2021. During this time, he oversaw the rollout of a new CRM system, launched a sales management competency framework and coaching programme, and integrated the sales teams from Bytes Security Partnerships, when the previously separate business was merged with Bytes in 2020. Jack was promoted to Bytes MD in March 2021.

Chair's introduction to corporate governance

This has been a busy year for the Board, as we focused on our composition and diversity, connecting in person with employees as the pandemic restrictions lifted, and supporting BTG's strategy.

As a Board we embrace the principles of the UK Corporate Governance Code (code) and have made solid progress in implementing effective systems of governance at BTG. I would like to thank all our Board colleagues for their commitment and hard work this year.

Composition of the Board

We've been on a journey to achieve the right balance between executive and independent non-executive directors, as well as increase the skills and diversity on our Board. This year we moved further along the road, with the decision to appoint Sam Mudd to the Board, as announced on 12 April 2023. Sam is MD of Phoenix, and will continue in that role in addition to becoming an executive member of the Board at the conclusion of the 2023 Annual General Meeting. She is a great leader, strong on strategy, culture and people, and knows the business very well, having joined Phoenix nearly 20 years ago – and that is what will make her such an excellent addition to the Board.

David Maw will step down from the Board at the conclusion of the next Annual General Meeting on

12 July 2023, when Sam will join the Board. David has been a non-executive director since 2000 and has contributed significantly as a Board member through Bytes Group's different stages of growth. On behalf of the Board and the wider Group, I wish to again extend our sincere thanks to David for his invaluable contribution and counsel to the Group over many years. David's role as designated employee engagement non-executive director will be taken up by Dr Erika Schraner. Following the changes, our female representation on the Board will be 43% and, although this is above our goal of 40%, we are committed to making more progress towards gender equity across the Group. In addition, at the conclusion of the Annual General Meeting, all the non-executive directors will be independent, in line with the code.

Engaging with our employees

We were delighted to be able to connect with our employees in person this year. David did a fine job talking to employees across the wider organisation, visiting our main offices in Leatherhead and York and





“ Although our female representation on the Board will be above our goal, we are committed to making more progress towards gender equity across the Group.

also our offices in Reading and Manchester. For the Board, it is critical to understand the expectations of employees and any issues that affect them, and David provided us with important feedback. Overall, the feedback was really good, and in general our people believe that BTG is a great place to work. That doesn't mean we are complacent though, and we are working hard to understand what areas we can help with, and how we can better develop our people.

As part of this, the Board engaged with hundreds of employees in person and virtually when we visited Phoenix, in York, for a town hall meeting to discuss the most important company-wide matters. I introduced the Board members, their roles and our priorities, and we then had a long Q&A session. We had some very interesting questions, including about how we can continue our double-digit growth, and maintain our strong culture as we expand.

Supporting the executive to pursue the right strategy

Helping the executive team determine and drive strategy to deliver sustainable success for all our stakeholders over the long term is one of the Board's main responsibilities. A strategy item, led by our CEO, is on every Board meeting agenda. The directors and our business MDs held a full-day strategy session in York, which was very helpful for both divisions, Bytes and Phoenix. In open, honest debate, we discussed the growth strategy and related issues, including risk management and appetite, internal controls and synergies. More specifically, we looked at crucial issues like our sales portfolio, and the importance of maintaining our strong focus on software and, within it, areas with healthy margins.

The Board believes that it is crucial to understand the emerging trends in technology, to ensure that BTG has the capabilities and skills to respond to customer needs. We continued our trend of inviting leaders from leading software companies to address the Board, and to talk about the areas they are investing in and where they see the market going.

Our effectiveness as a Board

We had our first externally conducted Board review this year, which returned largely positive feedback. It was very pleasing for me to see that as a group we are strongly and clearly aligned on BTG's strategy, purpose and values. We identified priority areas to focus on, going forward. The first main one is diversity. We now have good gender diversity on the Board but at an executive level we have room for improvement. We have two strong female non-executive directors on our Board in Erika and Alison. I've asked them to engage more with female employees who have the potential to become managers, and to share their experience and thoughts on how to progress in the organisation.

The second priority area is the development of senior management. We want to identify and develop the top dozen or so people in the company: those with the potential to become our future leaders, and the other senior executives who will support the growth and scaling of the business. The Board agreed to do an assessment of leadership skills, identify the gaps and then implement a development programme.

Monitoring sustainability

The sustainability agenda remains an important focal point, and we review elements of it at every Board meeting. BTG has a defined sustainability framework in place, and KPIs that we monitor closely – for more details, see pages 34 to 49. This year the company appointed its first sustainability manager, a very positive move, and engaged environmental specialists to help collect and process emissions data. We also noted with admiration the continued impressive work our people do in their communities, in line with our values, giving their time, skills and financial support to good causes.

Patrick De Smedt
Chair
22 May 2023

The Board's year

This has been a busy, productive year for the Board. While BTG continues to perform well, we are operating in a challenging economic environment, so we've spent a good deal of time making sure the decisions we make take that balance into consideration – such as making careful choices about where to invest for the future.

Other important areas of focus this year included our first external Board effectiveness evaluation, hearing important questions from our employees on issues like strategy and culture, and continuing to focus on key sustainability issues. Here, we share some of the detail behind those discussions.

Our first external Board evaluation

An effective Board is essential to BTG's success. The Board conducts a formal review of the performance of itself, its committees and the Chair each year. This year was our first externally facilitated evaluation since we listed as a public company, and a welcome challenge in keeping pace with the extent of market opportunity. The Board is well placed to help management to step back and consider how the business ought to develop to support growth and to critically analyse whether the company's potential is being maximised.

Board evaluation process

Our 2022 evaluation was carried out by Lintstock, which has no other connection with the company or individual Board members. As well as evaluating the Board, Lintstock also considered the performance of our Chair and the Nomination, the Remuneration and the Audit Committees, the results of which we discuss on pages 92 to 95.

To evaluate our performance, we asked our directors to complete a survey in December 2022, asking for their views on a range of governance issues. Lintstock then followed up with one-to-one interviews with every Board member, our MDs and Group Company Secretary.

Lintstock provided feedback via a written report, followed by briefings for the Chair, senior independent director and Group Company Secretary on the report's main outcomes. Lintstock separately briefed the senior independent director on the outcomes of the Chair's review.

In February 2023, Lintstock presented its final findings and recommendations to the Board, setting out the work for the year ahead to help us achieve the actions identified.

Key areas of focus

The evaluation considered a range of governance issues, including:

- Board composition and diversity
- Engagement with strategy
- Stakeholder engagement
- Talent management and succession planning
- Support and training
- Relationships with non-executive directors
- Monitoring the external environment
- Risk management and internal controls
- Meeting management.

Outcomes from the evaluation

The evaluation concluded that the Board and its committees operate effectively and indicated strong support for the quality of relationships between the Chair, non-executive directors and the executives. It noted that the Board has a good focus on diversity and has made progress in further enhancing the skills and experience at a Board and committee level. The evaluation also concluded that the Board engages positively with BTG's strategic progress and growth plan. Evaluation feedback on our Remuneration Committee was also very positive, with no areas for change highlighted.

Key recommendations for 2023/24

Lintstock's recommendations broadly fell into three groups:

1. Board matters

- Continue to consider the Group strategy and organisational structure to help BTG grow.
- Consider how to accurately define and consider practical elements to maintain and strengthen our culture across the Group and within our two subsidiaries.
- Provide ongoing opportunities for the Board to hear from external experts to challenge our thinking.

2. Nomination Committee

- Continue to focus on ensuring diversity at all levels of the Group.
- Create more opportunities for our female Board members to engage with employees across the organisation.
- Expand the scope of development and succession planning to the next level of senior management below our CEO.

For more information on how we are addressing these areas, see our Nomination Committee report on pages 92 to 95.

3. Audit Committee

- Continue embedding enterprise risk management in our operations.
- Continue to strengthen the way that the committee monitors documentation of controls and actions following internal audits.
- Closer alignment with our external auditor.

For more information on how we are addressing these areas, see our Audit Committee report on pages 81 to 91.

“ This has been a very informative year for everyone on the BTG Board. I particularly enjoyed meeting some of our employees in York and hearing their thoughts on our company.

Patrick De Smedt
Chair



Our Chair's performance

Lintstock's evaluation of our Chair focused on his:

- Relationship and communication with the CEO
- Relationship and communication with the Board members
- Management of the input of directors
- Availability outside Board meetings.

The Chair scored 'good' to 'excellent' on all these. Lintstock identified some ongoing priorities for the Chair to consider, including continuing to draw comments from all members of the Board and continuing to confirm the actions and decisions that come from Board discussions to make sure that there is ongoing alignment.

For more information on reviewing our Chair's performance, see our Nomination Committee report on pages 92 to 95.

Discussing strategy during site visit

In November 2022, the Board spent two days visiting our Phoenix site in York to discuss a range of key issues – for example, how to ensure our strategy supports ongoing growth while maintaining a supportive culture, continuing to strengthen internal controls and driving operational efficiencies. Overall, the discussion highlighted that we have good consensus on our top strategic priorities and are aligned in our purpose and values.

Listening to our employees' views on BTG

During 2022, our designated non-executive director for workforce engagement, David Maw, visited our offices in Leatherhead, York, Reading and Manchester to hear our employees' views on BTG. He shared that feedback with the Board and, overall, the response has been positive. David learned that people generally see BTG as a great place to work. He gained insights on how they were managing during the cost-of-living crisis, too – feedback he was also able to share with the Board.

During the Board's site visit to York, our Chair hosted a town hall meeting for hundreds of employees, in person and virtually. As well as introducing Board members, their roles and priorities, Patrick took questions from employees on areas such as strategy, risk management, maintaining double-digit growth and retaining our strong culture as we grow – all of which remain pertinent themes for Board discussions. A similar town hall meeting and employee engagement is planned for 2023 in Bytes's head office in Leatherhead.

Continuing to focus on sustainability

BTG's sustainability agenda remains an important area of focus for the Board and is a standing item for discussion at every Board meeting. That includes closely monitoring BTG's sustainability key performance indicators. This year the Board's work focused on better understanding our Scope 1, 2 and, particularly, Scope 3 emissions.

We engaged an environmental specialist to work with us on this and to ensure our carbon reduction plan is appropriately set up to enable us to make meaningful progress in the years ahead, as set out in more detail in our sustainability report on pages 34 to 49.

The Board also approved the appointment of the Group's first sustainability manager, Lisa Prickett, in March 2023. Already working within Bytes, Lisa brought her knowledge of the business and its people, culture and operations to the role, immediately supporting our sustainability work.

Deep dives on cybersecurity and data security

The Audit Committee has recommended we increase our focus on cyber and data security through our internal and external audits and in Board-level discussion. We received our latest update in January 2023, during which our Group CISO set out the overall cybersecurity strategy, and our Group CTO gave a presentation on key cyber and technical security issues, including the results of a cybersecurity survey we conducted with our customers. (For more information on the survey, see our stakeholder engagement section on page 76). The Group continues to combine centralised expert resources with divisional engagement to oversee a consistent approach, while respecting each division's culture and individual style.

As well as helping the Board better understand key issues that affect BTG and our customers, these deep dive sessions are an excellent opportunity for Board members to experience first-hand our in-house knowledge. This, in turn, helps inform broader discussions about succession planning.

Stakeholder engagement (s.172 compliance)

Customers, vendors, employees and investors are core members of the BTG team, while support for communities and the environment – which is also a stakeholder – underpins the company's values and purpose.

Our approach to s.172

Section 172 imposes a duty on directors to act in a way that they consider, in good faith, best promotes the success of the company for the benefit of all its members.

In our decisions and actions during the year, we, the Board, believe we promoted the success of BTG for the benefit of its members as a whole, while also considering stakeholders and the matters set out in Section 172(1) (a) to (f) of the Companies Act 2006. We believe strongly in doing business in the right way, with all our decisions underpinned by their impact on BTG's five main stakeholder groups.

We describe these groups in the table opposite, but first set out two examples of how we considered the company's stakeholders in discharging our duties and making our decisions this year.

Supporting employees in the current economic environment

The Board supports and considers various initiatives and factors when providing its guidance to management. It strongly supports protecting employees and making sure the business continues to attract and retain best talent. The town hall meeting held at Phoenix allowed Board members to directly engage with employees, gaining their views and addressing their questions about what was important to them. Through our engagement, the Board has approved:

- Salary adjustments in favour of those employees who are most affected by cost-of-living pressures
- Supporting hybrid working arrangements and making this normal practice
- A financial wellbeing programme, mental health wellbeing support and a Vitality wellbeing programme
- Employee events to celebrate achievements and recognise teams and individuals
- Extending sales incentive trips to include non-commission-carrying and support teams, recognising the collective effort in driving Group success.

Customers

One important way that BTG can support customers is by helping them navigate the increasingly complex world of cybersecurity. Growing political and economic turbulence means companies are having to work harder than ever to ensure they keep their data and intellectual property safe, while managing fluctuating costs and rising demand for hybrid working.

To better understand the key issues that customers are facing and help us forecast trends for the coming year, Bytes surveyed more than 80 IT and security professionals from a range of different sectors. The survey asked respondents a series of

questions about the challenges they face, cybersecurity priorities for 2023, confidence in preventing 'phishing' attacks and the level of risk as more employees work from home.

While the results of the survey confirmed our thinking on key priorities, customers are increasingly interested in increasing overall cyber maturity for greater business resilience. Our market position, experience and knowledge means we offer customers a holistic, agile and independent view on their priorities and can help them optimise their budget while reducing risk. The full report is available at bytesplc.com.

Long-term decision making

The Board has established a structured governance model, with scheduled Board meetings, clear documentation and authority levels to control its decision-making processes. This governance model helps BTG to make sure decisions are considered, documented and reported on, illustrate clear processes and align with the company's strategic plans.

Each year, management prepares and presents a detailed annual budget for the Board's approval. Actual results for each month and year to date are then compared against this budget, and against prior year figures, when management accounts are presented. Throughout the year, re-forecasts for the full year are also presented to the Board based on actual results to date and expectations for the remaining months to come. Together, these enable the Board to monitor the actual and forecast performance of the business and how these compare with market expectations, so that any update to the market is provided in a timely way.

The Board and individual directors operate within this structure, with the aim of promoting the success of the company and delivering long-term shareholder value. Business proposals are documented and their performance tracked according to the relevant level of authority.

High standards of business conduct

The company Code of Conduct sets out the behaviours and values expected of BTG and its people. These are communicated to employees and third parties. Processes to update the Board and management about how the company code operates are in place, as is an independent whistleblowing service that allows employees and third parties to raise concerns anonymously.

In our oversight and monitoring role, we, the Board, require BTG employees to work to the highest standards of business conduct. Employees are supported in this by ongoing communication from management, and awareness of and training in acceptable conduct. Reports of inappropriate behaviour are independently investigated, and action is taken where necessary.

Stakeholder engagement

Here we set out how, as the Board, we have engaged with and been influenced by the interests of different stakeholders, as well as by the macroeconomic and environmental factors that affect them. Our engagement activities are well established, as is our investor community as a stakeholder group, since the company's listing in December 2020.

Stakeholder groups	How the Board stays informed	What the Board has learnt is important to our stakeholders
Employees People are at the heart of BTG's business and are instrumental to its continued growth and success	Indirectly <ul style="list-style-type: none"> Regular updates from the managing directors and HR about talent and succession planning, and employee remuneration and benefits, including pensions. Updates from management about career development and BTG's leadership coaching programme, online staff feedback platforms, quarterly whole-company meetings, employee NPS (net promoter score) surveys and engagement with the leadership team. Feedback from the Better Bytes team and the Phoenix Sustainability Network, which lets BTG's people share insights, feedback and ideas, and to constructively challenge management about how it can improve. As a result of feedback, in 2022/23 BTG deployed AEDs (automated external defibrillators) in all offices, installed a lanyard recycling bin and made plant milk available. The internal training platform is currently being changed to be mindful of neurodiversity, and the company is offering incentive trips aligned more to health and wellbeing. BTG has also run mental-health first-aider training sessions for all managers. The feedback from those employees who run the platform has also allowed the company to make many useful changes to the platform's back-end processes. Sustainability management tool developed by Phoenix, which is now being used across the Group to help drive progress against ESG goals. Directly <ul style="list-style-type: none"> Engagement through the Remuneration Committee. Monitoring the annual all-employee Sharesave scheme, which launched on 1 June 2021. As a Board, we were pleased with the strong uptake of the scheme in its first year, and that it was repeated in 2022/23, again with positive support and more than 50% uptake. Reports from David Maw, our Board-appointed non-executive director with responsibility for employee engagement, about the many individual and group meetings held with BTG's people during the year, including his visits to Leatherhead, York, Reading and Manchester to talk to employees. <p>Our non-executive directors attended the company's strategy session at Phoenix in November 2022, which included a town hall session with a Q&A, and introductions to and informal meetings with staff. Alison Vincent, Chair of our Remuneration Committee, spent time talking to employees about the effect on them of the cost-of-living crisis.</p>	<p>Based on feedback we have received, we know that BTG's people prioritise:</p> <ul style="list-style-type: none"> Opportunities for professional development and career progression A safe, diverse and inclusive working culture The ability to deliver market-leading solutions to our customers. <p>Through town hall Q&A sessions, we also know employees want to be kept updated about the company's strategy, risk management plans, growth plans and M&A strategy, and are keen to maintain the strong culture as the business grows.</p> <p>In particular, Alison's conversations with employees about the effect of the cost-of-living crisis informed the Board's thinking around this year's salary levels.</p> <p>The physical and mental health and safety of employees is a top priority for us as a Board. We support the opportunities BTG creates for employees to talk with leadership team members – for example, through the 'What's been happening?' sessions. These sessions enable employees to ask questions, provide feedback, share experiences and get to know each other better in small groups over coffee.</p> <p>We support the company's continued programme offering employees health support through qualified internal teams and by partnering with an independent health and wellbeing specialist – as well as the direct confidential channels for anyone to raise personal concerns. In 2022/23, for example, the company held an on-site wellness day, featuring exercise sessions, a juice bar and talks, and another day about financial wellbeing.</p> <p>The Board and management received feedback on these activities, which enabled us to improve employee engagement and take action where required. For example, as a Board we recently supported also increasing annual leave from 20 to 25 days for Bytes employees who have been with the company for five years or less. We also supported the company offering employees time off to pursue sports and activities with a variety of company-supported events.</p>

Stakeholder engagement (s.172 compliance) continued

Stakeholder groups	How the Board stays informed	What the Board has learnt is important to our stakeholders
<p>Customers</p> <p>Building trusted relationships with customers, based on a deep understanding of their needs, is critical to BTG's strategy</p>	<p>Indirectly</p> <ul style="list-style-type: none"> Feedback from BTG's account and sales teams meetings with customers in person and at virtual events, including tradeshow and conferences, and through social media and podcasts. Feedback and insights from management about BTG's clients' strategies and future investment plans, through contract reviews and feedback from the company's customer success teams. Feedback from management's interactions with customers in roundtable and summit events, and other events such as the company's summer networking event at Somerset House. <p>Directly</p> <ul style="list-style-type: none"> Annual customer experience survey. This is sent to customers, requesting honest feedback. Results are reported to the Board against the results of the previous year to track progress. Interactions between the CEO and customers about what they want to see from BTG's products and services from an operational and sustainability perspective. Major feedback is discussed with management and the Board. <p>This year, we, the Board, asked management to update us about customer experiences around changes to the vendor programme and pricing. We asked how these changes were affecting how customers engaged with the company, and how customers' experience of wider economic pressures within their own environments were affecting their engagement with BTG. This gave us a better understanding of customers' views and experiences.</p>	<p>Based on the feedback we receive, customers look to BTG for:</p> <ul style="list-style-type: none"> Effective and cost-efficient technology sourcing, adoption and management across software, and security and cloud services Help to identify their software needs, select and deploy appropriate software products, manage licence compliance and, ultimately, optimise their software assets. <p>Numerous customer events were held during the year, in person or virtually, which helps BTG keep up to date with what is most important to customers.</p> <p>BTG often screens customers for reputational and financial risks to identify issues that could damage its reputation or finances, and flags any material issues with us at Board level.</p>
<p>Suppliers and vendors</p> <p>BTG's well-established relationships with suppliers and vendors helps it to provide the best solutions and support for employees and customers</p>	<p>Indirectly</p> <ul style="list-style-type: none"> Updates from management keep us informed about the major third parties with whom the company does business, including its suppliers, banks and regulators. <p>The integrity of supplier arrangements – particularly robustness of supply – is a key consideration. The company screens all major third parties for reputational and financial risks to make sure there are no apparent issues that could damage its reputation or finances. BTG clearly documents terms and conditions, including service levels, payment terms and working practices.</p> <p>Directly</p> <p>This year, executive directors engaged directly with vendors and partners at industry events, through specific company-directed engagements and in interactions around solutions and services. The CEO gave the Board regular updates on these engagements.</p> <p>BTG also held close engagements with suppliers and vendors about changes within their programme and pricing structures. They discussed how the company and Board could best manage interactions and relations with customers.</p> <p>Our non-executive directors have long-standing relationships within the industry, which includes material vendors and partners that the Group works with on a daily basis.</p>	<p>Based on these updates, the Board understands how important to suppliers and vendors a close and mutually beneficial relationship with BTG is. Equally, the Board's strategy and decision making are informed by developments in technology, which highlights the importance of maintaining strategic and trusted partnerships with the world's most successful software companies.</p>

Stakeholder groups	How the Board stays informed	What the Board has learnt is important to our stakeholders
Investors BTG's investors own the company and have made a financial commitment to its success	Indirectly <ul style="list-style-type: none"> Insights from the regular engagement between the CEO, CFO or members of the senior leadership team with the company's larger shareholders and potential investors. Regular market announcements and presentations from the company's investor relations team, as well as feedback from its discussions with investors and through the investor relations hub on BTG's website. Feedback from the executive directors' in-person and virtual roadshows that they hold following key announcements, including the company's full-year and half-year results. Insights from the follow-up one-to-one conversations the executive directors hold with investors and analysts following these announcements. Regular analysis of shareholder and analyst sentiment and of peers. Directly Our Board Chair, Patrick De Smedt, senior independent director and committee chairs are available to meet with shareholders during the year. Our senior independent director, Mike Phillips, is always available to talk to shareholders during the year. In 2022/23, Alison Vincent led our Remuneration Committee's consideration of shareholder views about our remuneration policy, which was well supported by shareholders at the Annual General Meeting. Alison and Patrick also met with an institutional investor with a particular interest in environmental issues this year. They discussed how BTG sets incentives for long-term goals and the investor's desire to see more companies set science-based environmental targets. The Annual General Meeting is a key opportunity for shareholders and Board members to meet face to face to discuss the company's annual performance, strategy and any other matters shareholders wish to raise. We look forward to welcoming shareholders to our upcoming Annual General Meeting.	As a Board, we understand that investors are interested in a wide range of issues about BTG, including the execution of its strategy, and its financial and operational performance, governance, remuneration, acquisitions and capital allocation. The directors are aware of their duty to treat members as a whole fairly, with Board decisions taken with all members' long-term interests in mind. We enjoyed strong engagement with our shareholders in 2022/23 as set out here.

Stakeholder engagement (s.172 compliance) continued

Stakeholder groups	How the Board stays informed	What the Board has learnt is important to our stakeholders
<p>Community and environment</p> <p>BTG recognises that it is part of the communities in which it operates and strives to make a meaningful contribution to sustainable environments</p>	<p>Indirectly</p> <ul style="list-style-type: none"> Briefings from management keep Board members informed that BTG's operations, products and services are aimed at not adversely affecting the environment and should positively contribute to the communities in which the company operates. <p>As part of its social responsibility, the company continues to develop a more diverse workforce and partner with organisations that share its values. BTG provides engaging and well-paid local employment, minimises its impact on the environment by using raw materials, natural resources and energy responsibly, and works to reduce waste and harmful emissions, components and by-products.</p> <p>A corporate social responsibility programme, with clear objectives, is in place across both BTG's operating companies. In 2021/22, the company adopted its first Sustainability Framework – in response to the views and expectations of stakeholders, and the company's own values and aspirations to contribute more to its communities and the environment.</p> <p>It also set up a steering committee, supported by employee working groups, to ensure it meets its environmental and social goals. Any material issues raised in this committee are reported to the Executive Committee, which then reports to us at Board level.</p> <p>Directly</p> <p>Although our non-executive directors undertook no direct engagement activities this year, the executive directors supported fundraising events, employee fundraising matching and volunteering days. Such days are initiated within the business to benefit various charities and causes.</p> <p>Management reports carbon reduction efforts – funding, carbon reduction plans, governance structure, resourcing – to the Board, and we resolve these issues as appropriate.</p> <p>Also, through the sustainability governance framework, the Better Bytes team and the Phoenix Sustainability Network support environmental activities.</p> <p>The business maintains a dialogue with local schools and colleges to understand how to help them and to encourage students to join the Group through its graduate intake initiatives.</p>	<p>We support the company to encourage employees to volunteer for charities and provide support for various social and environmental causes. The company supports employees' efforts by making charitable donations and by giving them paid time off to volunteer.</p> <p>In 2022/23, the Board continued to support these activities, as well as the appointment of a sustainability manager, starting in 2023. For more details about BTG's work on sustainability, see pages 34 to 49.</p>

Audit Committee report

Introduction from our Chair

This year, much of the Audit Committee's focus has been on embedding a 'business as usual' approach to the committee's work, including approving a change in accounting policy for revenue recognition, and continuing to work with our internal auditor to strengthen key audit and risk-related governance processes.



We also discussed our mutual expectations with our external auditor to create a more efficient process in support of delivering a high-quality audit.

In another interesting year for the Audit Committee, we have fulfilled our duties to oversee BTG's financial and narrative reporting, internal control and risk management systems, compliance and fraud, and internal and external audit.

As announced in our half-year results, 2022/23 included approving a key change in the way we account for and report on certain elements of our revenue. This follows guidance issued by the IFRS Interpretation Committee and is in line with developing clear and consistent practice within our industry. We now account for all software licence sales on an agency, or 'net', basis whereas, last year, revenue from this income stream was partially treated as 'principal'. As required on a change in accounting policy, we restated last year's revenue and cost-of-sales figures to account for revenue in both years on the same basis. Our key financial metrics of gross invoiced income, gross profit, adjusted operating profit and cash conversion are not affected by this change.

The committee also oversaw, in May 23, the early cancellation and replacement of BTG's previous revolving credit facility (RCF) with HSBC, which was due to expire in December 2023. Following discussions with HSBC, we have entered a new RCF for another three years on similar terms and have the option for a one-year extension.

A strong collaborative approach to internal audit

I have been very impressed with the open, collaborative relationship that has developed between the BTG team and our internal auditor, PwC, during their first full year working together. They have made good progress in establishing a systematic, disciplined approach to evaluating and improving the effectiveness of our risk management, internal controls and governance processes. Following its introduction in the previous year, PwC continued to pay particular attention to identifying and addressing some of our highest priority items around key financial systems, data governance and business continuity management. It also reviewed our cybersecurity procedures and controls, at both an entity and Group level, an area identified by us as a principal risk in our risk report on page 63.

As the relationship continues to develop so too will the scope of PwC's work, broadening the range of risks and controls that it reviews and taking a deeper dive into more specific business areas.

All internal audit work is initially reviewed by the relevant operational teams to verify accuracy and completeness before formal release to the BTG Board and presentation of findings to our committee.

I have seen that collaborative approach I mentioned echoed in finance as well. Our CFO, Andrew Holden, has taken a smart approach to our two subsidiaries, with strong guidance and oversight from the Group while encouraging the business-level teams to work more closely with each other to share ideas and good practice. In December 2022, for example, the finance teams from both subsidiaries came together in a workshop to better understand the approach followed by each other in the application of accounting policies, budgeting processes and future reporting needs, and so create a sound basis aligning against best practice in the future. The second day of the workshop, which I attended, included sessions with the EY audit team, to share knowledge of our business, processes, policies and learnings from previous audits, and to support an efficient, smooth audit for the 2022/23 year end.

Preparing ourselves for regulatory change

A key part of our committee's role in any given year is to monitor and help respond to any regulatory changes. While we're still waiting for a final outcome from the UK's Department for Business, Energy and Industrial Strategy 2021 consultation on public trust, the Financial Reporting Council (FRC) has announced plans to consult on changes to the UK Corporate Governance Code. The FRC has said that internal controls will be one of the main areas of focus for any revisions. So, as a committee, we need to ensure we are as prepared as possible, even if we don't yet know exactly what those revisions will look like.

Audit Committee report continued

As an example, the business engaged a separate PwC team outside internal audit to review controls, processes and supporting documentation around four key financial control cycles: purchase to pay, order to cash, hire to retire and record to report. This work highlighted the fact that our documentation does not have a uniform depth and quality across the Group, because we operate several different business systems. To address this, PwC developed a set of consistent documents, in the same format, comprising a risk and controls matrix and a Visio diagram for each of the four cycles, across both trading operations.

Throughout this process, PwC shared regular updates with the committee. Together with the management team, we also received recommendations on prioritising weaknesses and gaps, based on the impact of fixing them and the work needed to resolve them, as well as opportunities to change. The committee has since reviewed the management team's progress in addressing these areas at subsequent meetings, and will continue to monitor it.

More recently PwC undertook an assessment of the Group's IT General Controls (ITGCs) across the seven accounting systems used by its two operating companies, to identify certain control gaps and opportunities. Management has adopted the associated documentation that PwC produced and is already implementing remedial actions. EY has reviewed the element of this work focusing on access controls and change controls – including through discussion with PwC – as part of EY's external audit work relating to ISA 315 (Revised) Identifying and Assessing the Risks of Material Misstatement. In particular, the revised standard has increased the focus on understanding the IT environment and assessing the ITGC risks associated with generating the financial statements. 2022/23 is the first year that ISA 315 (Revised) applies for BTG.

Relationship with external audit

EY has been our external auditor since our IPO, having taken on the reporting accountants' role on Admission. 2022/23 is its third year end. It is an open, collaborative relationship and the Audit Partner, James Harris, has direct access to me, as Chair, whenever he needs it. We remain open to suggestions and recommendations to improve our financial and narrative reporting, financial processes and internal controls, and take into consideration the regulatory and reporting insights shared by the EY team on relevant topics from time to time.

We are committed to as high a quality of external audit as possible and ahead of the 2022/23 audit, the committee approved EY's final fees for 2021/22 (excluding expenses) of £604,000 and proposed fees for 2022/23 of £748,200. The 2022/23 fee, which represents a 24% increase from the previous year, reflects BTG's ongoing growth, plus additional work in relation to disclosures in line with TCFD and ISA 315 (Revised). It also reflects some unforeseen overruns on audit time in relation to the 2021/22 audit, which preferably the committee and management should have been made aware of earlier. This year communication of progress of the costs of delivering the audit have improved.

The committee has approved the fees, but continues to encourage management and EY to work closely together to ensure the most efficient audit without compromising quality. That includes the need to strengthen communication on the status of the ongoing costs of delivering the audit ahead of signing the Annual Report and Accounts. A full breakdown of the EY fees, for audit and non-audit services, for 2021/22 and 2022/23 can be found on page 87.

The proposed reforms under the Audit Reform Bill and secondary legislation to introduce the Audit and Assurance Policy, Resilience Statement, Material Fraud Statement and distributable reserves disclosure will, in all likelihood, increase internal costs for BTG and similar companies and place more pressure on external audit fees in future years.

Feedback from the FRC on audit and reporting

I am pleased to say that the Financial Reporting Council's (FRC) quality review of EY's 2021/22 audit concluded that there were no key findings arising from its inspection. The committee has discussed the results and agreed actions with our Audit Partner, and the overall assessment is consistent with our own view of the quality and effectiveness of the external audit.

Meanwhile, BTG also received a letter from the FRC in November 2022 to say it had reviewed the company's Annual Report and Accounts for the year ended 28 February 2022. The review was subject to inherent limitations given that it was based solely on the annual report and accounts and did not benefit from detailed knowledge of the business or an understanding of the underlying transactions entered into. While the FRC's role is not to verify the information reviewed, but to consider compliance with reporting requirements, it did not find any material issues or raise any questions. However, it recommended some areas for improvement, including ongoing attention to the way in which we use and report on alternative performance measures and some additional focus areas around climate-related disclosures. The committee agreed with the recommendations, and all have been adopted in this year's Annual Report.

Focusing on continuous improvement as we grow

BTG has weathered the past year's economic downturn well, continuing to mature and grow. Its position in the market means we remain confident in the company's ability to deliver more growth year on year. As it does, we must stay focused and ensure we keep improving our processes and controls, so they continue to support greater efficiency and oversight across the entire Group. The Audit Committee has a key role to play in this and I am looking forward to continuing our work over the next 12 months.



Mike Phillips
Audit Committee Chair
22 May 2023

Accounting judgements and matters

Issue	Key uncertainties and judgements	Review and challenge by the committee	Conclusion
Revenue recognition Misstatement of revenue recognised at or near the year end	The Group transacts high volumes of customer orders across multiple vendor products and many software licensing programmes. Within each income stream, management has made judgements focused on determining when the Group's performance obligations are satisfied and the point at which revenue should be recognised, including the accounting for accrued and deferred revenue. This is most sensitive at or near the year end.	<p>As new product areas and licensing programmes are introduced by vendors, the Group reviews its revenue recognition policy at least annually to ensure that it is being applied appropriately and consistently across the Group.</p> <p>During the year, the committee engaged with management in its assessment of the policy, including the committee Chair attending the Group finance forum, where finance team members from both Group entities met to review the policy, and agree consistent processes to implement it across the business.</p> <p>In addition, the management team gives the committee detailed monthly reports on business performance, which include revenue and gross profit trends against budget and previous periods, to help identify anomalies that may indicate a mismatch of revenue and costs.</p>	The committee concluded that there is a consistent understanding and application of the revenue recognition policy across the Group, with processes in place to minimise cut-off errors that may result in revenue being reported in the wrong period.
Rebate receivable Misstatement of rebate receivable in the reported results	The Group has significant rebate income across multiple vendors and different rebate schemes, which gives rise to large rebates receivable balances at year end. This is because rebates are collated and paid by vendors and suppliers up to 90 days following the year end. Judgement is therefore required by management to estimate the Group's rebate receivable at the end of the financial year.	<p>The committee reviewed the Group's policy in relation to recognising supplier and vendor rebates at the year end and discussed with the management team any significant changes to rebate schemes during the year.</p> <p>This included the committee Chair attending the Group finance forum where finance team members from both Group entities met to review and share knowledge around the current rebate schemes, and to agree consistent processes to estimate and account for rebates across the business.</p>	The committee concluded that the Group has appropriate knowledge and processes in place to ensure rebates are accurately and completely accounted for in the correct period, including materially accurate estimates of the rebate receivable at the year end.

Audit Committee report continued

Accounting judgements and matters continued

Issue	Key uncertainties and judgements	Review and challenge by the committee	Conclusion
IFRS 15 – Revenue from contracts with customers Review of accounting policy in respect of principal versus agent	<p>When undertaking contracts with customers, the assessment of whether an entity is a principal or agent might require judgement, in particular when the specified good or service is intangible.</p> <p>In the year ended 28 February 2022, the Group recognised approximately 65% of its revenue from indirect software licence sales as an agent, those relating to cloud-based licences and licences requiring critical updates. These do not meet the control indicator criteria noted under IFRS 15 because the primary responsibility for fulfilling the promise to provide these licences to the customer rests with the software vendor and requires the vendors' ongoing involvement.</p> <p>The remaining approximately 35% of indirect software licence sales, being sales of non-cloud 'on-premise' licences and licences not requiring critical upgrades, were treated on a 'gross' basis as a principal.</p> <p>In the current year, in line with establishing consistent practice across our industry, the Group reviewed and challenged the treatment of indirect software sales under two methods, to establish whether a single approach could be applied to fit the fact pattern laid out in IFRS 15.</p>	<p>During the year, the committee engaged with the Group finance team to reassess the Group's position around the principal versus agent judgement in respect of the indirect software licence sales previously treated as principal.</p> <p>This followed the IFRS Interpretations Committee's decision at its 20 April 2022 meeting that the principles and requirements in IFRS 15 provided an adequate basis for a reseller to determine whether it is a principal or agent for software licences provided to a customer.</p> <p>Accordingly, the Group further considered the guidance around control indicators provided in IFRS 15, in line with developing clear and consistent practice within its industry.</p>	<p>Following this reassessment, the Group revised its judgement and now accounts for the resale of all indirect software licences – whether previously treated as agent or principal – with the Group acting as agent.</p> <p>Under the fact pattern set out in IFRS 15, the Group does not control the software licences prior to their transfer to the customer. It is the software vendor that is responsible for issuing the licences and activation keys, and for the software's functionality, and so for making sure the licences meet the customer's specifications.</p> <p>The committee concluded that this change was an appropriate application of IFRS 15 and has been reflected correctly in both the half-year results to 31 August 2022 and the full-year results to 28 February 2023. In both cases, in accordance with IAS 8, a retrospective restatement of the relevant prior year reported financial statements has been made, and the effect of the change has been disclosed by comparing the previous accounting policy to the revised accounting policy. The committee agreed that these disclosures were correctly reported.</p>
FRC review of BTG's Annual Report and Accounts for the year ended 28 February 2022 Assessment of FRC conclusions and recommendations for changes to be made to the Group's 2022/23 Annual Report and Accounts	<p>While no questions or queries were raised, and the FRC did not enter into any substantive correspondence with us, their review highlighted certain matters where they believed users of the accounts would benefit from additional information or explanations, if material and relevant.</p>	<p>The committee engaged with the executive management and with EY to consider each of the recommendations and to identify if and how the FRC points could be addressed when preparing the 2022/23 Annual Report and Accounts, most notably about the use, emphasis and authority of alternative performance measures (APMs).</p>	<p>The committee concluded that fuller explanation would be provided within the 2022/23 reporting about using APMs and why they provide useful information, and would also include some more analysis of the APMs calculations.</p>

Issue	Key uncertainties and judgements	Review and challenge by the committee	Conclusion
Going concern Assessment of appropriateness of the going concern basis for preparing and presenting the financial statements	<p>In continuing to adopt a going concern basis for preparing the financial statements for the period ended 28 February 2023, the directors have reviewed and made judgements around a wide range of factors that could affect future trading and cash flows.</p> <p>This included considering the Group's exposure to credit risk, liquidity risk, currency risk and foreign exchange risk, as well as to the wider challenging economic conditions and geopolitical environment.</p>	<p>The committee considered the appropriateness of the key assumptions underpinning the Group's going concern assessment, in particular around wage inflation, energy prices, general cost inflation along with any wider affects from the invasion of Ukraine, and the impact of these on the business and the businesses of its customers. The committee also considered the sensitivities modelled under a range of downside scenarios to reflect increasing risks and the associated mitigations to offset them.</p> <p>In one aspect of mitigation, the committee discussed with and advised management in respect of replacing the current revolving credit facility (RCF), due to expire in December 2023 with a replacement facility running to May 2026, with an option for another 12 months to May 2027.</p> <p>The new RCF also covers the three-year viability period, for which the committee considered the extended forecasts that management made as the basis for preparing the Group's viability statement.</p>	<p>The committee concluded that management had considered a wide range of potential adverse impacts to future trading and cash flows and applied these in a reasonable range of downside scenarios. It also reviewed the associated disclosures in the year-end financial statements and the outputs of the external auditor's review to satisfy itself that the going concern conclusion was appropriate.</p> <p>The committee confirmed its agreement to replace the RCF, to provide headroom in case the downside scenarios arise but also to enable the Group to take advantage of future expansion or investment opportunities.</p>

Strengthening our financial reporting and internal controls

This year, the committee focused on a number of significant areas of financial reporting and internal control, including financial, operational and compliance controls. For example, we:

- Reviewed BTG's financial statements and assessed whether suitable accounting policies were adopted and whether management made appropriate estimates and judgements
- Reviewed the detailed scenarios and assumptions behind the going concern basis of accounting and longer-term viability
- Assessed the effectiveness of the external audit process and considered the reappointment of EY as the external auditor for 2022/23

- Monitored the effectiveness of BTG's enterprise risk management and internal control systems, and received detailed reports and presentations on principal risk tolerance levels and management
- Oversaw the execution of the internal audit plan for 2022/23 and approved the new plan for 2023/24, following PwC's appointment as BTG's first internal auditor in the previous year
- Continued to support the strong finance leadership team with insights from PwC's own experience
- Reviewed our terms of reference for 2023/24
- Considered the committee's own effectiveness, together with the Board
- Reviewed the 2022/23 Annual Report and Accounts and half-year results.

Membership aligned with the code

The Audit Committee members include directors with recent and relevant financial experience and competence in accounting, risk management and governance. As a whole, it has expertise that is relevant to the IT sector in which BTG operates. For the purposes of the UK Corporate Governance Code, the Audit Committee Chair, Mike Phillips, is the designated financial expert. Mike is a qualified chartered accountant and has previous experience as a CFO of a UK-listed company, with American depositary receipts listed on the New York Stock Exchange. Meanwhile, Alison Vincent has considerable sector expertise, particularly around cybersecurity and enterprise risk management, and Erika Schraner has substantial financial knowledge in accounting and corporate actions as a result of her previous executive work and as chair of the audit committee for another FTSE 250 company. Biographies for all the committee members are set out on page 69.

Audit Committee report continued

Committee attendance

Committee member	For the financial year to 28 February 2023
Mike Phillips	7/7
Alison Vincent	7/7
Erika Schraner	7/7

How the committee operates

Our committee generally meets on the same day as Board meetings, to make interacting with the other directors as efficient as possible. Our external auditor, EY, and internal auditor, PwC, are invited to attend our meetings, as are the other members of the Board and the Group Company Secretary. Depending on the agenda, other members of senior management are also invited.

During 2022/23, we met seven times. Attendance at our meetings is shown above. These meetings include additional sessions one week before our main half-year and year-end results meetings to consider reports from the auditors and management teams. This ensures that any material aspects relating to the results are raised and addressed by the committee in an efficient way.

The Board receives a monthly financial reporting pack for BTG and, at each Board meeting, the CFO provides a written and verbal report on our financial performance and outlook. This gives members a good understanding of the Group's financial performance, with more information provided around financial reporting periods.

This year we benefited from a series of meetings with key members of the management teams of Bytes and Phoenix, as part of Board engagement sessions.

Our committee has reviewed and approved its terms of reference, which were set on 30 November 2020, as part of our IPO process. We have also agreed a schedule of items for each of our planned meetings for the 2023/24 financial year, with two of these dedicated to risk management.

Responsibilities

The Audit Committee's principal responsibilities, as delegated by the Board, remained unchanged this year. They include oversight, assessment and review of:

Financial statements and reporting

- The integrity of BTG's financial reporting as a whole and any formal announcements relating to its financial performance, including any significant judgements contained in them
- BTG's assessment of its going concern and longer-term prospects and viability.

External auditor

- The effectiveness of the external audit process, with consideration of relevant UK professional and regulatory requirements
- Developing and implementing policy on the supply of non-audit services by the external auditor and approving relevant work.

Internal auditor

- The relationship with the internal auditor, advising on its effectiveness
- Considering and approving the internal audit review plan, the outcome of audit reviews and associated actions.

Risk management and internal controls

- The effectiveness of BTG's internal financial controls, risk management and internal control systems, including the activities of the internal audit function, and supporting an agenda of continuous improvement
- Reviewing BTG's finance and risk management policies for ensuring regulatory and legal compliance
- Identifying and assessing principal and emerging risks and risk exposures
- The effectiveness of anti-fraud and bribery systems, and whistleblowing arrangements where employees and third parties can raise concerns in confidence.

As well as these responsibilities, the committee:

- Supports the Board in discharging its responsibilities to comply with the UK Corporate Governance Code
- Advises the Board on proposed full-year and half-year financial results and periodic reporting, and related announcements
- Reviews the annual and half-year financial statements and accounting policies, and internal and external audits and controls
- Recommends to the Board the payment of final, interim and special dividends
- Assesses the effectiveness of financial reporting procedures
- Advises the Board on the outcome of the external audit and whether it considers the Annual Report and Accounts, when taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess BTG's position and performance, business model and strategy
- Makes recommendations to the Board on the appointment, reappointment or removal of the external or internal auditors
- Approves both the external and internal auditors' fees and terms of engagement
- Maintains strong relationships with the Board, executive management and the external and internal auditors in the execution of their respective responsibilities
- Reports to the Board on how the committee has discharged its responsibilities during the year.

External auditor

The committee is responsible for overseeing the relationship between BTG and EY as the external auditor. During the year, EY presented to the committee its detailed audit plan for 2022/23, which outlined its audit scope, planning materiality and assessment of key audit risks. The committee also received

reports from EY on its assessment of the accounting and disclosures in the financial statements and financial controls, and was comfortable that the audit work remained appropriate to BTG's business.

The committee aims to ensure that the auditor feels able to challenge management. It also aims to ensure that the auditor has all the access it needs to report on matters that may not be part of the statutory audit but that, in the opinion of the auditor, should be brought to the attention of the committee. To do that, EY attends each committee meeting. It also holds other meetings during the year with the committee Chair, without management present, and receives all committee papers. EY audit partner, James Harris, continues to have direct access to the committee Chair to raise any matters of concern or clarification.

Outside our formal meetings, the external auditor has direct access to the committee Chair. With the pandemic behind us, the committee and auditor have been able to spend more time working together face to face this year, which has enabled more proactive teamwork and efficient engagement.

In December 2022, we also held a combined workshop for BTG's finance team and the external auditor. As well as aligning on best audit practices, the session was a chance to deepen BTG's relationship with EY and take time to discuss the audit plan in more detail.

When carrying out its statutory audit work, EY also has access to a broader range of employees and different parts of the business. For this year's audit, EY's team was able to visit the main offices of Bytes and Phoenix. As part of this process, EY reports any information that it believes the committee should know about in line with its duties and responsibilities.

Our committee approved EY's fees for the external audit. As explained in the Chair's letter on page 82, the external audit fees were substantially higher this year than last.

External auditor fees

	2021/22	2022/23
Consolidated Group and PLC (including review of original hours, growth and additional TCFD disclosures)	£176,800	£251,114
Subsidiary audits (including review of original hours, growth and additional scope of ISA 315 requirements)	£317,200	£372,186
Half-year review (non-audit services)	£75,000	£95,400
Total recurring fees	£569,000	£718,700
Non-recurring	£35,000	£29,500
Total non-recurring fees	£35,000	£29,500
Total fees	£604,000	£748,200

The committee assesses the quality, effectiveness, objectivity and independence of EY's annual audit. This includes seeking feedback from the Board. As part of the process, the committee considers:

- EY's confirmation that it maintains appropriate internal safeguards aligned with applicable professional standards
- The fulfilment of the agreed external audit plan
- The content, insights and value of EY's reports to the committee
- The robustness and perceptiveness of EY in handling key accounting and audit judgements
- The policies in place to safeguard EY's independent status, including our policy on non-audit services
- The tenure of the audit engagement partner not being greater than five years.

Based on this assessment, the committee concluded that EY had provided appropriate focus and challenge throughout the audit and had remained objective and independent. Following the most recent review, the committee once again recommended EY's reappointment as BTG's auditor, and EY expressed its willingness to continue. Resolutions to reappoint EY and allow the directors to determine its remuneration will be proposed at the 2023 Annual General Meeting.

The committee does not intend to put BTG's audit out to competitive tender at this stage. However, we will continue to review EY's appointment and the need

to tender the audit, ensuring BTG's best interests are considered. In this regard, the committee will continue to monitor the Government's implementation of recommendations resulting from its consultation on Restoring Trust in Audit and Corporate Governance, as well as subsequent actions taken by the FRC.

Non-audit services

It is the Board's policy that all proposals from EY for any non-audit services must be approved in advance by the committee and must not be prohibited by the FRC Revised Ethical Standard 2019. EY may only provide such services if its advice does not conflict with its statutory responsibilities and ethical guidance. The committee is aware of the requirements of the Statutory Auditors and Third Country Auditors Regulations 2016. The regulations cap non-audit services in any financial year at less than 70% of the average audit fees paid on a rolling three-year basis.

As standard practice, our review of EY's performance during the year-end reporting period included non-audit services and the auditor's ability to maintain its independence while providing these services. EY did not perform any services during the year that the committee considers as non-audit related, with the exception of the half-year review, which is permitted as a non-audit service. The ratio between audit and non-audit services performed by EY during the year was 6.8:1.

Audit Committee report continued

Audit risks and areas of focus

As part of its audit planning process, EY advised our committee of the key audit risks and areas of audit focus. The key risks identified were:

Fraud risks

- Misstatement of revenue recognised at or near year end
- Misstatement of rebate receivable to overstate reported results
- Management override of controls.

Significant risks

- IFRS 15 revenue presentation and disclosure.

Other areas of audit focus

- Accounting for share-based payments
- Going concern and viability
- Group consolidation and presentation
- Impact of ISA (UK) 315 (Revised).

Our committee has the authority to request that additional areas are reviewed should the need arise.

Working with the external auditor**External audit process effectiveness and auditor independence**

The committee approved EY's terms of engagement and reviewed the effectiveness of the external audit through the year-end reporting period. We assessed the auditor's performance, based on our evaluation and feedback from senior members of BTG's finance team, across a range of relevant topics. We concluded that the auditor showed appropriate focus, critical analysis and challenge on the key audit areas and applied robust challenge and scepticism throughout the audit. We recommended to the Board, which, in turn will recommend to shareholders in a resolution at our 2023 Annual General Meeting, that EY should continue as external auditor.

The external auditor reported to the committee on its independence from BTG, in line with all UK regulatory and professional requirements, and confirmed that the objectivity of the audit partner and staff is not impaired. The committee also confirmed that BTG has adequate policies and safeguards to ensure EY remains objective and independent.

Internal controls and risk management systems

The management of risk is treated as a critical and core aspect of our business activities. Although the Board has ultimate responsibility for establishing and maintaining BTG's internal control and risk management systems, ensuring the Group has robust risk identification and management procedures in place, certain risk management activities are delegated to the level that is most capable of overseeing and managing the risks. On behalf of the Board, the committee keeps the adequacy and effectiveness of the company's internal financial controls and risk management systems under review and assesses and approves the Annual Report statement concerning internal control and risk management. This includes assessing principal and emerging risks, and the viability statement. As part of its internal audit this year, PwC confirmed to the committee that BTG's internal controls have been appropriately documented for the areas reviewed.

For more on our risks and mitigation and our risk management framework, see the risk report on pages 57 to 63. To gain a comprehensive understanding of the risks facing the business and management, the committee periodically receives presentations from senior managers and external advisors.

We have also followed the UK Corporate Governance Code's key requirements on risk management and control. For example, this year, as the code requires, the Board has:

- Continued to implement our enterprise risk management framework and policy
- Carried out a robust assessment of our risk appetite, and emerging and principal risks
- Confirmed that we have completed this assessment in our Annual Report, along with describing our principal risks and indicating how we identify emerging risks and manage or mitigate risks
- Monitored and reviewed the effectiveness of our material risk management and internal control systems and summarised this effectiveness review in our Annual Report.

Assessing our principal risks twice a year

The Board carries out a robust assessment of BTG's principal risks twice a year. This considers the risks that could threaten our business model, future performance, solvency or liquidity, and the Group's strategic objectives over the short to medium term. Our principal risks are documented in a schedule that includes a comprehensive overview of the key controls in place to mitigate the risk and the potential impact on our strategic objectives, KPIs and business model. Given its importance, changes to BTG's risk register can only be made following approval from the committee or the Board. We outline changes to the principal risks during the year on pages 59 to 60.

Risks that are not principal to BTG are documented within the risk registers of our primary subsidiaries, which are overseen by the Executive Committee. The Audit Committee received updates on material aspects relating to these risk registers at intervals during the year. In addition, risks that are considered key indicators of changes in BTG's risk profile, or deviation from the Board's risk tolerance level, are identified and reported to the committee.

Following our reviews, the committee confirmed to the Board that it is satisfied BTG's internal control and risk management procedures operated effectively throughout the period and are in accordance with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

With our enterprise risk management (ERM) now in place, the committee continues to use the Group's ERM policy and framework and our risk appetite framework. Our ERM approach determines our overall principles, requirements and responsibilities for a sound approach to risk management and an effective and continuous internal control assurance framework within the business.

The committee also assessed the Group risk register – which consolidated the risk registers of BTG, Bytes and Phoenix – during the year. This included the underlying methodologies, inherent risk scores (IRS) of the identified risks and what mitigation, if any, could be applied to the IRS depending on the classification of green, amber and red. Green (low) risks can be accepted without mitigation, amber (medium) risks should be mitigated where possible and red (high) risks must be mitigated as much as possible. Once mitigations are taken into account, management scrutinises the net red risks to determine if they are compatible with the Group's risk appetite.

Our committee formally reviews the Group risk register twice a year, using a consistent process, to identify the likelihood and business impact of any material or emerging risk, as well as any mitigating factors or controls. A robust assessment of the principal and emerging risks facing the Group was carried out by management – and reviewed and incorporated into the register by the committee – during the year.

The boards of directors of Bytes and Phoenix have implemented internal controls and processes to deliver financial control and reporting, including controls incorporated into their underlying systems. On a day-to-day basis, the Group system of internal control is managed and coordinated by our CFO.

At our meetings in October 2022 and February 2023, the committee considered the process by which management evaluates internal controls across the business. IT security risk, in respect of data security breaches around the Group's own data and that held on behalf of third parties, remained a key theme. So too were the broader challenges in the macroeconomic environment, caused by issues such as the invasion of Ukraine and cost-of-living crisis.

Our business continuity plans (BCPs) for Bytes and Phoenix remain robust and we continue to embed an annual BCP management cycle as part of our overall risk management process, to continuously track, review and evolve our plans.

The committee is satisfied that BTG's risk management and internal controls systems operated effectively for the 2022/23 financial year, up to and including the date of this report.

Going concern and viability statements

The committee considered BTG's going concern and viability statements at our meeting in May 2023. We also challenged the nature, quantum and combination of the unlikely but significant risks to our business model, future performance, solvency and liquidity, which were modelled as part of the scenarios and stress-testing for our viability statement.

As part of this review, we considered our financial forecasts position to the end of August 2024 for going concern and, over the next three years for viability, conducted a principal risk assessment, and analysed the impact of sensitivities on cash and available funding, individually and collectively in a reasonable worst-case scenario. These scenarios considered the mitigating actions we could take.

We are satisfied that our going concern statement, on page 115 of the directors' report, and our viability statement, on pages 65 to 66 of the strategic report, have been prepared appropriately.

Internal audit

Our internal audit function's main task is to support the Board to protect BTG's assets, reputation and sustainability. The internal auditor provides independent assurance about the adequacy and effectiveness of the Group's internal controls and risk management systems.

This year marked PwC's first full year as BTG's internal auditor and once again the committee reviewed and approved the internal audit charter. This provides the framework for how internal audit is conducted in BTG and was created to formally establish its purpose, authority and responsibilities. The committee approved the internal audit plan for 2022/23, which is designed to support BTG's organisational objectives and priorities and identify the risks that could prevent the Group from meeting those objectives.

In all, PwC carried out five audit reviews across both our subsidiaries and, while these identified several areas for continued improvement, found no material issues or areas of concern. Before each review takes place, PwC holds a planning meeting to understand the context, key stakeholders, audit objectives and timeframes. Together with our CFO, it also reviews areas of particular importance to the committee to ensure the scope of the audit meets the committee's expectations.

And so that we can continuously improve our internal audit processes, PwC considers a range of feedback and issues as part of its planning process each year. This includes gathering views from our CEO, CFO and managing directors for both subsidiaries, as well as considering previous areas of internal audit focus and their results, and the most significant risks that we face as an organisation.

Audit Committee report continued

Following up on internal audit reviews

The committee receives a report on internal audit activity at each scheduled meeting and monitors the status of internal audit recommendations and management's responsiveness to their implementation. The committee keeps other Board committees updated on the outcome of any reviews that fall within their areas of responsibility. To ensure management completes actions from internal audit reviews in a timely manner, PwC follows up on the completion and implementation of critical, high and medium findings after their nominated completion date. PwC also carries out follow-up reviews with management and examines supporting data to validate the information provided.

The committee approved the internal audit plan for 2023/24 at the end of the financial year, including reviews of Microsoft CSP licence revenue and supplier rebates for both operating companies.

Effectiveness review of the internal auditor

As planned, we conducted a formal review of the effectiveness of the internal auditor and internal audit process following year end. The review looked at several areas, including the qualifications and expertise of PwC's team, the depth and breadth of our internal audits and quality of planning. Overall, the committee is satisfied with the way PwC manages our internal audit function. The team's extensive combined experience means it is able to draw on subject matter expertise from within the wider PwC ecosystem. It also meets with the senior BTG team each month to understand the changes and challenges in the business and engages with the committee Chair in advance of committee meetings. PwC also meets regularly with our external auditor to exchange knowledge on the risk and control environment and coordinate plans where appropriate.

At the start of any review, PwC holds scoping meetings with key stakeholders to agree the depth and breadth of the audit and ensure the scope covers the risks identified during the planning stage while focusing on the right areas. All significant audit findings remain 'open' until approved by the Head of Internal Audit or the committee.

Financial reporting

As part of BTG's financial reporting cycle, it is the committee's primary responsibility to review the quality and appropriateness of the annual and half-yearly financial statements with the management team and external auditor. For the period under review, we focused on:

- The quality, appropriateness and completeness of our significant accounting policies and practices and any resulting revisions
- The reliability of processes underlying the integrity of our financial reporting
- The clarity, consistency and completeness of our disclosures, including compliance with relevant financial reporting standards and other reporting requirements
- Significant issues where management judgements and/or estimates were material to our reporting, or where discussions took place with the external auditor to reach a judgement or estimate
- The committee's advice to the Board on the long-term viability statement.

The committee received reports from management on the identification of critical accounting judgements, significant accounting policies and the ongoing application of accounting standards in financial year-end reporting.

It also paid specific attention to the principal risks, risk appetite and tolerance levels. We agreed that the following areas of risk remain relevant and should be reviewed and assessed in 2023/24:

- The IT security risk of security breaches of BTG's own data and that held on behalf of third parties
- The ongoing impacts of higher inflation, increasing interest rates, supply chain constraints and geopolitical uncertainty – given their significant impact on the global economy, customer behaviours and associated cash flows, and the carrying amount of assets and projected future cash flows in the context of going concern and impairment assessments
- The risks associated with not being able to attract and retain talented people or maintain the unique nature of our culture as we grow.

We reviewed the appropriateness of management's accounting in relation to each of these significant risks.

Dividends and distributable reserves

We declared an interim dividend of 2.4 pence per share paid to shareholders and are pleased to announce a proposed final dividend for the year ended 28 February 2023 of 5.1 pence per share. Reflecting our cash position at the year end, which is above the level required for the ongoing running of our business, we have also proposed a special dividend of 7.5 pence per share. Both dividends are subject to shareholder approval at our Annual General Meeting on 12 July 2023. If approved, these would both be payable on 4 August 2023 to shareholders on the register at 21 July 2023.

During the year, we took steps to ensure that our distributable reserves within the Group and company are appropriate for the declaration of dividends. The committee reviewed BTG's dividend policy and confirmed that 40% of post-tax but pre-exceptional earnings would be distributed to shareholders as normal dividends.

Fair, balanced and understandable statement

The committee considered this Annual Report as a whole, and the processes and controls underlying its production, in light of the requirement that it must be fair, balanced and understandable. This included making sure that we addressed the areas listed below.

Process

- All team members involved in the process were properly briefed on the fair, balanced and understandable requirement.
- The core team responsible for coordinating content submissions, verification, detailed review and challenge had the necessary experience to carry out their work well.
- The committee received drafts early enough to review and comment in a timely manner.

Content

- The report includes accurate key messages, market and performance reviews, principal risks and all other disclosures required for good corporate governance.
- The report is balanced in describing potential challenges and opportunities and includes relevant forward-looking information.
- Information in the different parts of the report is consistent.
- The report is written concisely, without unnecessary verbiage, and avoids jargon as far as possible.
- Senior management confirmed that they believe that the information included about their respective areas of responsibility is fair, balanced and understandable.

On the basis of this review, we recommended to the Board that this Annual Report is indeed fair, balanced and understandable, and gives readers

the information they need to assess the Group's position and performance, business model and strategy.

We were also pleased that, in its review of our 2021/22 Annual Report, the FRC only recommended minor areas for improvement, all of which we have addressed in this year's report.

Review of the committee's effectiveness

This year saw our first external evaluation of the Board's effectiveness, which included a review of the Audit Committee. While the review was very positive, it highlighted three areas for improvement:

- 1. Risk management** – the committee is taking steps to further embed and oversee ERM in BTG's operations
- 2. Internal controls** – the committee will continue to monitor the documentation of controls and management actions that arise from internal audit reviews
- 3. External auditor** – the committee continues to create closer alignment with EY following recent feedback on the audit process. And it continues to monitor the relationship with the external auditor, including consideration around future auditor requirements.

Looking forward

During 2023/24, our committee will remain focused on the key areas of responsibility delegated to it by the Board, which include, among others:

- Seeking appropriate assurance across all areas of the business, with a particular focus on BTG's principal risks, control environment and approach to financial reporting, taking into account developments in reporting responsibilities and the ongoing consideration of climate risk in preparing the financial statements

- Maintaining a strong relationship with our external auditor, including a second workshop, and working with it to deliver a robust, efficient and effective external audit
- Monitoring and reviewing the effectiveness of the internal auditor.

We welcome questions from shareholders about the committee's activities. If you wish to discuss any aspect of this report, please contact us through our Group Company Secretary at WK.Groenewald@bytes.co.uk.

Nomination Committee report

Introduction from our Chair

This year the Nomination Committee has focused on appointing a new Board member from within BTG, as David Maw steps down as non-executive director at our Annual General Meeting in July 2023.



“ Since becoming MD of Phoenix in 2014, Sam Mudd has demonstrated her skill as a leader and that she has a deep understanding of her business.

Patrick De Smedt
Nomination Committee Chair

We've also looked at ways in which we can strengthen our approach to senior executive development and how to keep driving diversity at every level of the company.

A good deal of a Nomination Committee's time every year is rightly spent thinking about Board composition and ensuring its members and other senior executives have the right mix of skills, experience and diversity to help the business succeed. In that sense, it has been a very typical year for us.

As well as considering these issues as part of our ongoing remit, we have addressed them in practical ways to respond to two key aspects: recommendations from our latest Board evaluation to look more closely at executive development and diversity, and David Maw's decision to step down as a non-executive director after more than 20 years as a Board member within the Group.

Reviewing our composition in light of Board changes

Since joining in 2000, David has brought vast experience to the Board, significantly contributing to BTG's evolution from a small business into the FTSE 250 company that we are today.

While we will miss having David's guidance and input, I am delighted that his seat on the Board will be filled by our MD of Phoenix Software, Sam Mudd, who will take up her position at the conclusion of the next Annual General Meeting. Meanwhile, Dr Erika Schraner will take on David's duties as our designated workforce engagement non-executive director.

Since becoming MD in 2014, Sam has demonstrated her skill as a leader and that she has a deep understanding of her business. Successful Board members must also show that they can think about the broader external landscape and ask the challenging questions that help a business thrive. Having identified Sam

as a potential new Board member, we invited her to a number of Board and Audit Committee meetings, during which she repeatedly proved that she has both these abilities. I have no doubt that the Board will benefit greatly from her strengths in areas like strategy and culture.

Developing our future leaders

From our Annual General Meeting in July 2023, at least half our Board, excluding the Chair, will continue to be independent non-executive directors, all of whom the Board considers to be independent, as set out in the UK Corporate Governance Code (code). We have also taken the opportunity this year to again review our Board composition.

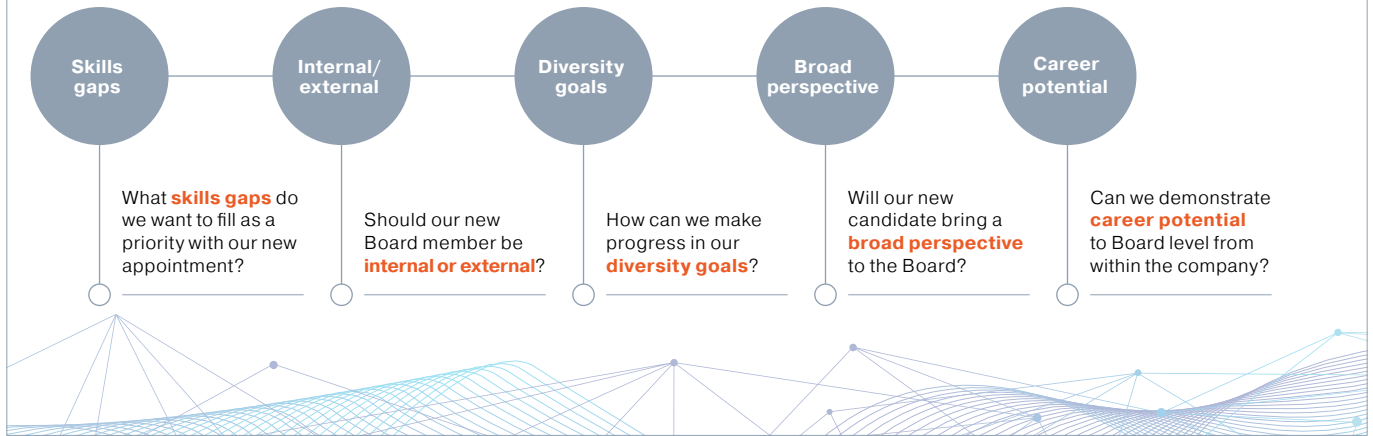
When finding someone of the right calibre to take David's place, the committee was clear that this was a chance to increase the number of women on our Board, and with Sam's appointment we have now reached 43%. This was also an opportunity to discuss broader issues around executive development and succession planning.

While other companies seem to be reducing the number of executives on their Board, we see this as a good development opportunity. For example, public companies need executives who understand the responsibilities that come with being listed. Over the next year, I will be working with my colleagues to create a development plan that will help Sam continue to broaden and deepen her skills.

What this process has made very clear is that, as a committee, we feel a collective responsibility to help develop our senior executives and wider management team. Of course, Sam is just one of our two capable MDs. Jack Watson has developed into an exceptional leader since becoming MD for Bytes Software Services in March 2021. Although a little earlier on in his management career,

Selecting our new Board member

In considering Sam's potential as a new Board member, the Nomination Committee considered a number of matters:



Jack has considerable opportunity to see and learn more about how the wider Group and a plc board operate.

Executive development, succession planning and Board composition are all interlinked – one naturally feeds another. By approaching them in a joined-up way we can think carefully about the strength and depth we need to build in the coming years to ensure BTG continues to grow and expand. In doing so, we can also demonstrate to employees right across the company that there is potential to build their career up through the ranks. That has certainly been the case for Sam and Jack, who started out at BTG as a solutions sales manager and business account executive respectively.

So, the committee is also thinking about how to identify and develop the next layer of senior leaders, to help them build the skills and experience BTG will need to keep growing. Next year, we will carry out a project to assess our leadership skills which, in time, will help us create more tailored development plans focused on future executive-level potential.

We are only in the early stages of this process and, in the meantime, continue to look for ways to help the existing Board and executive team develop their expertise – for example, our most recent Board evaluation highlighted an opportunity to bring in more external perspectives to help us challenge our thinking. One of the ways we do that is by

inviting leaders from key software vendors to come and talk to the Board about their perspective on the wider market. This year, we had interesting discussions on topics such as developments in cyber and data security, emerging trends around artificial intelligence and insights into wider macroeconomic issues.

Continuing to create a more diverse team

Diversity is the other area raised by our Board evaluation that is relevant to our committee, and we've had some productive, challenging discussions over the past year about our ambitions. I am particularly pleased that, with Sam's appointment, we have exceeded our goal to have women representing at least 40% of our Board.

It's fantastic progress – just two years ago women made up 17% of the Board. Over time, we will continue to make progress at the executive level, where we are currently at 25%. Meanwhile, women represent 40% of our total employees, which means we have an excellent opportunity to help some of our younger female employees develop their careers with us. We are also fortunate to have very strong Board-level role models in Erika Schraner and Alison Vincent, and I've asked both to think about ways they can engage more with female employees who have the potential to become managers, sharing their experiences as women in IT.

To continue supporting our entire workforce, we also need to look beyond gender and focus on other types of diversity, like ethnicity and neurodiversity. We do not yet meet the Parker Review's target for FTSE 250 companies to have at least one Board member from an ethnically diverse background. That is something we continue to monitor and will be a key part of our thinking when carrying out our skills assessment next year. In the meantime, though, the Group's internal training platform is being updated to help our teams be more mindful of neurodiversity.

We have a wealth of expertise on our Board in areas like technology, finance, mergers and acquisitions, and international business. But we can always do more, so I expect the committee to remain focused on key issues around diversity, Board composition and executive development in the coming year. I am looking forward to continuing those conversations with my colleagues.

Patrick De Smedt
Chair

22 May 2023

Nomination Committee report continued

Committee attendance

Committee member	For the financial year to 28 February 2023
Patrick De Smedt	3/3
Alison Vincent	3/3
Mike Phillips	3/3
Erika Schraner	3/3

Our Nomination Committee works to ensure that we have the right executive and non-executive leaders to execute our strategic plans and maximise our business potential – now and in the future.

As part of this, we focus on three complementary elements: ensuring appropriate leadership and succession planning for our Board and senior management, overseeing the development of a diverse and inclusive succession pipeline, and promoting BTG's long-term sustainable success in the interests of our stakeholders.

Our committee terms of reference are reviewed and approved annually, and are available at bytesplc.com.

Responsibilities

Our committee's main responsibilities are to:

- Regularly reassess the composition of the Board and committees (including size, skills, knowledge, experience and diversity), ensuring that they remain appropriate, and make recommendations for changes, as necessary, to the Board
- Review the criteria for identifying and nominating candidates for appointment to the Board, based on the specification for a prospective appointment, including the required skills and capabilities
- Identify and nominate candidates for Board approval to fill Board vacancies as and when they arise, taking into account other demands on directors' time
- Lead the process regarding appointments to the Board, including that of the Chair
- Review the time commitment and independence of the non-executive directors, including potential conflicts of interest
- Deliver succession planning for the Board and senior executives, including recruitment, talent development, identification of potential internal or external candidates, and making recommendations to the Board
- Ensure that all new Board members have an appropriate and tailored induction, and that training and development is available to existing members.

This year we once again focused on the composition and diversity of our Board and succession planning, and discuss this below.

Raising our diversity aspirations

As well as being the right thing to do, establishing a truly diverse leadership team will ultimately benefit our stakeholders by enabling us to perform better. To this end, on the recommendation of our committee, the Board has a Board and Senior Management Diversity Policy, which was reviewed in February 2023. In the 2021/22 financial year, in line with new recommendations from the FTSE Women Leaders Review, we revised our policy to:

- Aspire to having at least 40% female directors on the Board and senior leadership team by the end of the 2025/26 financial year
- Consider appointing at least one woman in the Chair, senior independent director, CEO or CFO role by the end of 2025/26
- Consider candidates for non-executive director roles from diverse gender and ethnic backgrounds
- Develop a pipeline of diverse, high-calibre candidates by encouraging a range of employees with different ethnic, gender and experiential backgrounds to take on additional responsibilities and roles.

The policy was approved by the Board and is available at bytesplc.com.

Independence of non-executive directors and potential conflicts of interests

On 28 February 2023, our committee reviewed the independence and potential conflicts of interests of the non-executive directors in line with the code. We concluded that Patrick De Smedt, Mike Phillips, Alison Vincent and Erika Schraner are independent and continue to make independent contributions and effectively challenge management.

David Maw remained classified as a non-independent non-executive director and will continue in this capacity until he steps down from the Board in July 2023. Notwithstanding his long tenure with BTG, David continues to demonstrate independent judgement and holds management to account. Sam Mudd, who will join the Board at the conclusion of the Annual General Meeting in July 2023, will be appointed as an executive director.

Succession planning

We manage succession planning in line with the Group's relevant policies, which are aligned with regulatory requirements around diversity targets and with the company's growth aspirations, which we consider in relation to the skills and expertise that we need or will need in future at Board level.

During 2022/23, we continued to evaluate BTG's succession planning for senior executive roles. This included assessing the strengths of senior managers, areas that need improvement and the plans to address them. We identified immediate and long-term candidates among internal leaders who would be ready to take on an enhanced role, if needed, and whether more training and development would be required.

We also again assessed the existing succession planning for our executive Board member roles, and continued our efforts to establish formal succession plans for each of our non-executive positions.

Strong Board relationships with the executive

This year we carried out our first external Board evaluation, using external consultancy Lintstock.

The evaluation concluded that the Board and its committees operate effectively and indicated strong support for the quality of relationships between the Chair, non-executive directors and the executive. It noted that the Board has a good focus on diversity and has made progress in further enhancing the skills and experience at a Board and committee level. It also concluded that the Board engages positively with BTG's strategic progress and growth plan.

For the Nomination Committee, recommendations from the evaluation included:

- Continued focus on diversity and inclusion at Board level and the wider workforce, specifically providing more opportunities for employees to engage with our strong female Board members and leaders as part of our women in IT initiatives
- Board succession planning, building on the 2022/23 success in improving membership diversity
- Talent management, both for executive management and senior leaders in our businesses
- Continued employee engagement, given the growth in the role of the designated non-executive director for workforce engagement, to establish other ways of gauging staff opinions and concerns, such as more All Hands sessions.

The Group Company Secretary monitors progress on implementing the recommendations and reports this to the Board.

For more information on the overall findings and recommendations of the evaluation, see pages 74 to 75.

Review of Chair's performance

Working with Lintstock, the senior independent director, with input from the non-executive directors, executive directors and Group Company Secretary, appraised Patrick De Smedt's performance as Chair during the year. The findings of this review were shared with the Board. For more information on the Chair's performance review, see pages 74 to 75.

2023/24 focus areas

During the course of the coming year, our committee will continue to monitor its compliance with the code and, in conjunction with the Board, review succession plans to further enhance the cultural diversity and skills balance across the business. This will include:

- Build on our directors' skills matrix to ensure they continue to support BTG's growth strategy and will maximise the potential of the business
- Considering and recommending the election of directors at our Annual General Meeting in July 2023
- Continuing our succession planning process at both Board and senior management level
- Monitoring the implementation of plans to strengthen our senior managers' capabilities to support their teams as they grow.

Compliance with the UK Corporate Governance Code

For the year ended 28 February 2023, we applied the principles and complied with the provisions of the 2018 UK Corporate Governance Code (code). The code is available in full on the FRC's website at [frc.org.uk](https://www.frc.org.uk).

1. Board leadership and company purpose

A. The Board's role	<p>Our Board's objective is to create and deliver BTG's long-term sustainable success, supported by the right culture and behaviours, to generate value for shareholders and contribute to wider society. Our governance framework ensures that we have a robust decision-making process and a clear structure within which decisions can be made and strategy delivered.</p> <p>Our delegation of authority matrix – which we reviewed and updated again during the year – ensures that decisions are taken by the right people at the right level with accountability up to the Board. This enables an appropriate level of debate, challenge and support in the decision-making process.</p> <p>We continue to be led by an effective Board, which ensures that the most relevant topics are discussed at meetings throughout the year. The Board's main activities are detailed on pages 74 to 75.</p>
B. Purpose, culture and strategy	<p>The Board has overall responsibility for establishing BTG's purpose, culture and strategy and, in doing so, delivering our long-term sustainable success and generating value for shareholders. Central to this role is the need for the Board to set the right 'tone from the top', in living and upholding our values, encouraging open and honest debate, and behaving ethically. The Board places great importance on ensuring that its conduct and decision making are appropriate for the businesses and sector in which we operate, and in line with our culture.</p> <p>Our Board is committed to delivering our strategy and to advancing our purpose of 'empowering and inspiring our people to fulfil their potential, so they can help our customers make smarter buying decisions and meet their business objectives through technology'. The Board discusses company culture at every Board meeting and regularly reviews reports from the CEO, CFO and senior management that provide insight into the culture across the organisation. The Chair also receives regular updates from management around culture. Together, this helps to ensure behaviours throughout the business align with BTG's purpose, culture and strategy.</p>
C. Resources and controls	<p>The Board ensures that BTG has the necessary resources to meet its objectives and to continuously measure its performance against them. Through the Audit Committee, it oversees BTG's control environment and risk management frameworks. The Board's agenda is set to deal with those matters relating to BTG's strategic plan, risk management and systems of internal control, and corporate governance policies.</p>
D. Stakeholder engagement	<p>Our key stakeholders play an important role in the successful operation of our business. Our Board is fully aware of, and takes seriously, its responsibilities to them under Section 172(1) of the Companies Act 2006 (the act). Our Board members are mindful of the potential effect on our stakeholders when considering the company's strategy or other activities.</p> <p>Board members take an active role in engaging with shareholders and wider stakeholders. Non-executive directors are available to meet shareholders and discuss their concerns in person at the Annual General Meeting. They also attend investor calls when requested and are invited to attend relevant industry events.</p> <p>The Board receives reports from David Maw, our designated non-executive director with responsibility for employee engagement, about his work. David also sets up visits to all BTG offices, which allows him to meet and have one-to-one discussions with staff and operational managers. Senior managers are also given opportunities to present at Board meetings and engage with Board members in a different setting.</p> <p>We provide more information about how we consider all stakeholders' views in our decision making in Stakeholder Engagement on pages 76 to 80.</p>
E. Workforce engagement	<p>As well as our Board members' site visits, David Maw engages with staff at scheduled intervals. He visits every one of our offices and businesses at least once a year to meet with staff, and 'walks the floor' to engage with staff generally. David sets up specific discussions for the Board and reports back on his activities at nearly every Board meeting. This contributes to our strong employee net promoter score (eNPS) this year of 70.</p> <p>Our independent whistleblowing service enables employees and third parties to raise concerns in confidence, either directly to the CEO or through independent channels. We have a formal process for investigating whistleblowing reports and our whistleblowing policy is available at bytesplc.com/sustainability/governance. There were no whistleblowing reports this financial year.</p>

2. Division of responsibilities

F. Role of the Chair	<p>Our independent Chair, Patrick De Smedt, leads the Board. He determines the agendas for meetings, manages the meeting timetable and encourages open and constructive dialogue during meetings, inviting the views of all Board members.</p> <p>Patrick was considered independent when he was appointed. We review the status of all our independent non-executive directors each year and confirm that each continues to be independent.</p>
G. Composition of the Board	<p>As well as the Chair, the Board comprises three independent non-executive directors, one non-executive director and two executive directors. The roles of the Chair and CEO are clearly defined, with their role profiles being reviewed as part of the Board's annual governance review.</p> <p>The Chair is responsible for effective leadership of the Board and for maintaining a culture of openness and transparency at its meetings. The CEO, Neil Murphy, has day-to-day responsibility for the effective management of BTG's business and for ensuring that Board decisions are implemented.</p> <p>Our Board has agreed a clear division of responsibilities between its leadership function – supported by our corporate governance framework – and the executive leadership of the business. To ensure that no individual has unrestricted powers of decision making and no sub-group of directors can dominate the Board, we have defined responsibilities clearly in our role statements and in the matters reserved for the Board. Committee terms of reference determine the authority given to each Board committee.</p> <p>For more on our Board composition, leadership and role statements see pages 68 to 70. The responsibilities of our Chair, CEO and senior independent director, and our Board and committees, are set out on page 116 and at bytesplc.com.</p>
H. Non-executive directors' role and time commitment	<p>At least half our Board, excluding the Chair, are non-executive directors whom the Board considers to be independent. Our non-executive directors scrutinise the performance of the executive management team and hold it to account against agreed objectives. Our Chair holds discussions with the non-executive directors without the executive directors being present, a practice that continued in the past year.</p> <p>As senior independent non-executive director, Mike Phillips serves as a sounding board for the Chair and is available as an intermediary for our other directors and shareholders. During the year, Mike worked with our external adviser Lintstock to manage the Chair's performance appraisal, which was done by the non-executive directors, executive directors and Group Company Secretary.</p> <p>Regular Board and committee meetings are scheduled throughout the year to ensure directors allocate sufficient time to discharge their duties effectively. A non-executive director role generally takes up at least 20 days a year, after the induction phase, plus additional time to prepare for each meeting. Directors are also required to regularly update and refresh their skills, knowledge and familiarity with the company, and attend additional Board, committee or shareholder meetings at certain times.</p> <p>Before appointing a candidate, the Nomination Committee assesses that person's commitments, including other directorships, to ensure they have enough time for the role. The committee formally reassesses the directors' time commitments every year to ensure they each still have time for their role; the Chair also does this periodically as part of his role. Our directors must obtain approval before taking on additional external appointments.</p>
I. Role of the Company Secretary	<p>The Group Company Secretary, WK Groenewald, is secretary to the Board and oversees BTG's legal function as General Counsel. His responsibilities include ensuring the Board has the information, time and resources to discharge its duties and to function effectively and efficiently. He provides briefings and guidance to the Board on governance, legal and regulatory matters and facilitates induction programmes for new directors.</p>

Compliance with the UK Corporate Governance Code continued

3. Composition, succession and evaluation

J. Appointments to the Board and succession planning	<p>The Board, with the Nomination Committee's support, continuously reviews its own composition and that of its committees, and considers succession planning, diversity, inclusion and governance-related matters. The Nomination Committee has overall responsibility for leading the process for new Board appointments. It also ensures that these appointments bring the required skills and experience to the Board to assist in developing and overseeing BTG's strategy. The committee makes sure all appointments are made on merit, having evaluated the capabilities of all potential candidates against the requirements of the Board and considered all types of diversity, including gender.</p> <p>For more details, see our Nomination Committee report on pages 92 to 95.</p>
K. Skills, experience and knowledge of the Board	<p>As part of our succession planning, our Nomination Committee considers the balance of skills, experience and knowledge our Board needs to work effectively and help BTG deliver its strategic goals. This year we formalised our Board skills matrix and you can find all the details on our directors' tenure, skills and experience in page 70.</p>
L. Board evaluation	<p>In line with the need to undertake an externally facilitated evaluation every three years, we have committed to a three-year Board effectiveness programme with external advisor Lintstock. The programme includes one Board review with interviews followed by two survey-based reviews. Lintstock ran our first external review, with interviews, in December 2022. Lintstock provided feedback to the Chair and the senior independent non-executive director in January 2023, followed by its report to the Board in February. The Board then agreed actions for 2023/24 to further strengthen the way it operates. The Chair and Group Company Secretary are managing these actions, which we set out in the Board's year on page 74.</p>

4. Audit, risk and internal control

M. Internal and external audit	<p>The Board receives regular updates on audit, risk and internal control matters, with the Audit Committee having detailed oversight and reporting its findings to the Board. The Audit Committee comprises three independent non-executive directors.</p> <p>The Audit Committee report on pages 81 to 91 sets out more about audit, risk management and internal control, and the committee's work. The report also includes details about how the committee assesses the effectiveness and independence of EY – our external auditor – and PwC, our internal auditor, which reports to the Audit Committee about progress against audit reviews and identifies areas of our control environment for review.</p>
N. Fair, balanced and understandable assessment	<p>The Board considers this Annual Report, taken as a whole, to be fair, balanced and understandable, and provides the information necessary for shareholders to assess BTG's position and performance, business model and strategy. The Board's assessment is described on page 116.</p>
O. Risk management and internal control framework	<p>Our Board is accountable to our stakeholders for ensuring BTG is managed appropriately. It sets the Group's risk appetite, satisfies itself that its financial controls and risk management systems are robust, and ensures that it is adequately resourced.</p> <p>A description of the principal risks facing the Group is set out on pages 60 to 63. This shows how the directors have assessed the prospects of the company, over what period and why they consider that period to be appropriate (the 'viability statement').</p>

5. Remuneration

P. Remuneration policies and practices	<p>Our Board, supported by the Remuneration Committee, ensures that our remuneration policies support BTG's strategy and promote long-term sustainable success. Executive remuneration is aligned to the successful delivery of our long-term strategy and considers overall BTG remuneration policies and practices. This includes linking executive remuneration more closely with the achievement of our ESG targets for 2023/24.</p> <p>Our remuneration policy was well supported and approved by shareholders at the 2021 Annual General Meeting and will be presented again to shareholders at our Annual General Meeting in 2024. The directors' remuneration policy can be found in full on pages 94-107 of our 2020/21 Annual Report.</p>
Q. Executive remuneration	<p>The Remuneration Committee is responsible for setting the remuneration for executive directors. No director is involved in deciding their own remuneration. See our directors' remuneration report for more on our remuneration policy and how it is implemented.</p>
R. Remuneration outcomes and independent judgement	<p>Details of the composition and work of the Remuneration Committee are set out in the Directors' remuneration report on pages 100 to 111.</p>

Directors' remuneration report

Introduction from our Chair

The macroeconomic climate over the past 12 months has been challenging for everyone, with inflation, interest rates and the cost of living all on the rise.



“ Given the current challenging economic conditions that have affected so many, the committee feels a strong sense of duty to make sure that our people feel supported.

Dr Alison Vincent
Remuneration Committee Chair

Against that backdrop, the Remuneration Committee has focused on our key responsibilities, including maintaining financial prudence and discipline, taking a closer look at the way in which we track and measure certain remuneration targets and setting this year's KPIs for our executive directors.

BTG's second full year as a listed company has been very much 'business as usual' for the Remuneration Committee. This has given us the time to focus on what I would describe as the mechanics of remuneration. By that I mean ensuring our remuneration policy continues to reward good performance while setting stretching targets that support sustainable growth.

We have a simple, transparent framework designed to build and nurture an entrepreneurial culture and instil a sense of shared ownership in the company's performance. The framework is made up of base salary, modest benefits and pension, and an annual bonus and single long-term incentive plan (LTIP) – the Performance Share Plan (PSP) – which consists of stretching performance targets and conditions.

BTG has matured rapidly over the past couple of years. I see that reflected in simple ways like receiving more in-depth reports and papers for review at our meetings, which has opened up richer discussions and better decision making. This year, for example, this had helped the committee interrogate the data and methodology BTG uses to track and measure two targets that make up part of the strategic objectives we use to determine the executive directors' annual bonuses: employee and customer satisfaction ratings. Through our review, we're now able to better interpret the outcome of these surveys and how they compare with our industry benchmarks, which, in turn, provides guidance for setting future targets.

I'm also personally delighted to say that the feedback on our committee under the recent external Board effectiveness review was very positive, with no areas for change highlighted.

Remuneration outcomes for 2022/23

The 2022/23 bonus opportunity for the executive directors was once again 100% of base salary, which we split into two parts:

- 80% based on adjusted operating profit
- 20% on key strategic objectives.

As a result of this year's performance, our CEO and CFO received annual bonus payouts of 94%. This reflects the Group's strong financial performance in 2022/23 and the level of KPIs achieved by the executives in the year, as set out in more detail in the directors' remuneration table on page 105.

In line with our Deferred Bonus Plan, these bonuses will be paid two-thirds in cash and one-third in shares, deferred for two years. The committee considered this level of payout was appropriate, having assessed the company's overall performance. No discretion was applied in the remuneration outcomes for the year. And since the directors' first PSP does not vest until 2024, we're not able yet to include a value for this in the executive directors' remuneration figures. I will, of course, share an update on this in next year's Annual Report.

I will also be able to share the outcome of a new salary review that we intend to undertake in 2023. It's been three years since we formally benchmarked our CEO and CFO base salaries, and BTG has grown significantly in that time. The company has also enjoyed excellent performance under the CEO and CFO's leadership, so this review will help ensure that their salaries remain market competitive. In the

meantime, we increased our CEO and CFO's salaries by 5%, effective 1 March 2023. This compares to 6% for our general workforce.

Helping our people manage the cost-of-living crisis

Given the current challenging economic conditions – the impact of which has been felt by so many people over the past year – the committee feels a strong sense of duty to make sure that our people feel supported. So this year, we have spent time during every meeting talking about the impact that the cost-of-living crisis is having, particularly on our lower-paid members of staff, many of whom are also at the start of their careers.

Under Neil's leadership, BTG has developed a culture that cares deeply about people's welfare and as a committee we share his desire to help those most affected. That's why this year's remuneration budget includes balancing inflationary-related salary increases in favour of those employees more exposed to the impact of cost-of-living pressures. While it is the directors' responsibility to decide how this will be distributed, the committee has supported them to do so in a way that recognises the disproportionate impact that this is having on our lower-paid team members.

Over the longer term, we also want everyone at BTG to feel that collective sense of ownership that I mentioned earlier, which is why we encourage employees to take part in our Sharesave scheme. This is a good way for employees to buy shares at the end of a three-year savings period at a discounted price set at the beginning of the savings period. I am delighted that we continue to see strong participation, with more than half of eligible employees taking part in the scheme.

Discussing remuneration with our stakeholders

As a committee, we recognise the value of hearing from our stakeholders and considering their views when setting our remuneration policy and outcomes. This year, for example, Patrick and I had a very productive conversation with an institutional investor with a particular interest in environmental issues. We discussed a range of topics, including how we set incentives for long-term goals and its desire to see more companies set science-based environmental targets. The conversation was a good reminder for Patrick and me of the important role non-financial performance has to play in variable elements of pay. The investor also offered to provide feedback when we review our remuneration policy in 2024.

Our employees are another key stakeholder group and our designated non-executive director for workforce engagement, David Maw, has a standing invitation to all committee meetings. David always provides an invaluable perspective that I find particularly helpful when thinking about the shape of the wider BTG benefits package. Other than the economic challenges I mentioned earlier, I am delighted to say that David received a minimal amount of negative feedback from employees on remuneration during the year.

I also had the chance to meet with some of our employees during the Board's town hall meeting at Phoenix's offices in November 2022. This was a good opportunity to engage directly with our employees, many of whom are in the earlier stages of their career at BTG, and to hear their perspective on our business, pay and the economy in general. It was a pleasure to hear their views and I am pleased to say that no issues were raised that the committee needed to address.

The committee also worked with our external remuneration consultants to review feedback from our 2022 Annual General Meeting. As well as taking a detailed look at how proxy agencies analyse our remuneration practices and publish their voting recommendations, we considered the way in which other companies provide information on their remuneration policies. What we learned will certainly inform our thinking as we prepare for our next policy review, to help ensure that our remuneration structures remain up to date with stakeholder expectations.

Looking ahead to 2023/24

Thinking about the year ahead, I expect it will be more of the same for the committee. We will continue to review our approach to remuneration, making only appropriate modifications and adjustments as needed. That will include a review of our KPIs to ensure we have the right balance between our financial and non-financial measures. We will also look at our sustainability metrics to make sure that the targets we set senior leaders reflect good practice in this area. Ahead of seeking approval for our next policy at our Annual General Meeting in 2024, we will begin to give broad consideration about the approach we want to take. I look forward to sharing more of this with you all in due course.



Dr Alison Vincent

Remuneration Committee Chair
22 May 2023

Directors' remuneration report continued

Remuneration at a glance

Our pay principles

- Clear and simple
- Aligned with the interests of shareholders and other stakeholders
- Performance-related and linked to our KPIs
- Competitive but not excessive
- Aligned with our culture and values.

Compliance with the 2018 UK Corporate Governance Code

In designing our policy, and implementing it throughout the year, the code has been a core source. The committee took full account of its remuneration-related provisions – as we illustrate below in describing how we sought to comply with the six factors in provision 40:

Clarity	Our remuneration framework supports financial delivery and the achievement of strategic objectives, aligning the interests of our executive directors and shareholders. Our approved policy is transparent and has been well communicated to our executive team. It will be clearly articulated to our shareholders and representative bodies (both on an ongoing basis and during consultation, if any changes are considered necessary).
Simplicity	Our framework has been designed to be straightforward to communicate and implement.
Risk	Our incentives have been structured to align with the Board's system of risk management and risk appetite. Inappropriate risk-taking is discouraged and mitigated by, for example: <ul style="list-style-type: none"> – A balance of fixed pay to performance-related incentive pay and through multiple performance measures based on a blend of financial and non-financial targets – Deferring a proportion of annual bonus into shares and operating a post-vesting holding period for the LTIP – Significant in-employment and post-employment shareholding guidelines – Robust recovery and withholding provisions.
Predictability	Our incentive plans have individual caps, with share plans also subject to market-standard dilution limits. The committee has full discretion to alter the payout level or vesting outcome to ensure payments are aligned with our underlying performance.
Proportionality	Our approach is underpinned by the principle that failure should not be rewarded. There is a clear link between individual awards, strategic delivery and our long-term performance. This is demonstrated, for example, by the connection between executive directors' pay arrangements and their building and maintaining of meaningful levels of shareholding; through linking our incentive measures and KPIs; by our ability for, and openness to, using discretion to ensure appropriate outcomes; and via the structure of our executive directors' contracts. As mentioned above, the committee reviews formulaic incentive outcomes and may adjust them in the light of overall Group performance and our wider employee remuneration policies and practices.
Alignment to culture	Our policy is aligned to our dynamic, can-do culture and strongly held values. The committee strives to embed a sustainable performance culture at management level that can cascade down throughout our business. The Board sets the framework of KPIs, against which we monitor the company's performance, and the committee links the performance metrics of our incentive arrangements to those indicators. We are also keen to foster a culture of share ownership and operate employee share schemes across the workforce.

Implementation of our policy in 2023/24

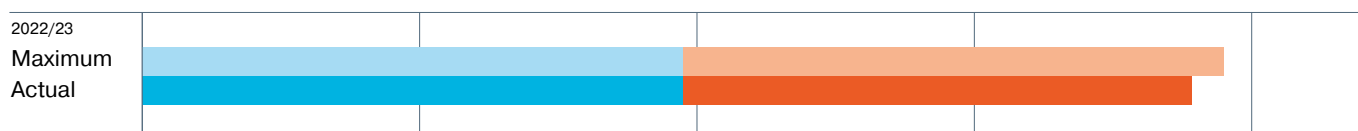
Fixed pay	Salary	<ul style="list-style-type: none"> – CEO – £409,500 (increased by 5%, from 1 March 2023) – CFO – £333,900 (increased by 5%, from 1 March 2023)
	Pension	<ul style="list-style-type: none"> – CEO – 1.48% of salary – CFO – 4% of salary – Executive director pension contributions will be no higher than the rate for most employees
	Benefits	<ul style="list-style-type: none"> – Medical and life insurance
Annual bonus	Maximum	<ul style="list-style-type: none"> – 100% of salary
	Performance measures	<ul style="list-style-type: none"> – Adjusted operating profit (80%) – Key strategic objectives, including ESG targets (20%)
	Operation	<ul style="list-style-type: none"> – One-third deferred into shares for two years – Recovery and withholding provisions operate
Performance share plan	Award level	<ul style="list-style-type: none"> – CEO 150% of salary in 2023/24 – CFO 150% of salary in 2023/24
	Performance measures	<ul style="list-style-type: none"> – Adjusted earnings per share (75%) – Relative total shareholder return (25%)
	Operation	<ul style="list-style-type: none"> – Performance measured over three years – Two-year additional holding period applies to vested awards – Recovery and withholding provisions apply
Share ownership guidelines	In-employment guideline	<ul style="list-style-type: none"> – 200% of salary
	Post-cessation guideline	<ul style="list-style-type: none"> – 200% of salary to be held for two years post-employment
	Current shareholding	<ul style="list-style-type: none"> – CEO – 39.05 times salary – CFO – 0.92 times salary

Implementation of our policy in 2022/23

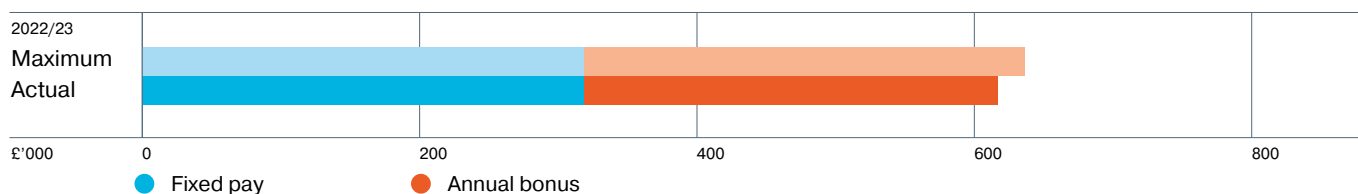
During 2022/23, the goals of our remuneration policy were successfully met.

2022/23 remuneration outcomes versus policy maximum

Neil Murphy (CEO)



Andrew Holden (CFO)



No long-term incentives were capable of vesting during the year.

Annual report on remuneration

Committee attendance

Committee member	For the financial year to 28 February 2023
Alison Vincent	4/4
Patrick De Smedt	4/4
Mike Phillips	4/4
Erika Schraner	4/4

The Annual Report on remuneration sets out how the directors' remuneration policy was applied in 2022/23 and how it will be applied for the forthcoming year. The current directors' remuneration policy was approved by shareholders at our 2021 Annual General Meeting on Thursday, 22 July 2021, and it took formal effect from that date. The policy will formally apply until the 2024 Annual General Meeting unless a new policy is presented to shareholders before then. The full shareholder-approved policy can be found in the 2020/21 Annual Report on pages 94-107, which can be found on our website at bytesplc.com.

The Remuneration Committee's role and composition

The Board is ultimately accountable for executive remuneration and delegates this responsibility to the Remuneration Committee. The committee is responsible for developing and implementing a remuneration policy that supports BTG's strategy and for determining executive directors' individual packages and terms of service, together with those of other members of senior management (including the Group Company Secretary).

When setting the remuneration terms for executive directors, the committee reviews and considers wider employee reward and related policies. It also takes close account of the remuneration-related provisions of the UK Corporate Governance Code, including the requirements relating to clarity, simplicity, risk mitigation, predictability, proportionality and alignment to culture.

The committee is formally constituted and operates on written terms of reference, which are available on our website at bytesplc.com.

The committee comprises Alison Vincent (Chair), Patrick De Smedt, Mike Phillips and Erika Schraner, all of whom were members throughout the year ended 28 February 2023. The committee met four times during the year, with full attendance at all meetings.

By invitation of the committee, the CEO, CFO, David Maw (non-executive director) and the Group Company Secretary (who acts as committee secretary) also attend its meetings. They are consulted on matters discussed by the committee, unless these relate to their own remuneration. Advice or information is sought from other employees where the committee feels it will assist its decision making.

The committee is authorised to take such internal and external advice as it considers appropriate in carrying out its duties, including the appointment of external remuneration advisors. During the year, it was assisted by FIT Remuneration Consultants LLP. FIT was appointed by the Board in September 2020 and provided advice during the year on general remuneration matters and on the implementation of the policy. Fees paid to FIT for advising the committee during the year to 28 February 2023 were £20,671 (excluding VAT), charged on a time/cost basis. FIT did not provide any other services to BTG during the year to 28 February 2023. FIT is a member of the Remuneration Consultants Group and, as such, voluntarily operates under its code of conduct on executive remuneration consulting in the UK. The committee is satisfied that FIT's advice was objective and independent.

The committee carried out the following significant activities during the 2022/23 financial year:

- Reviewing and approving remuneration packages for the current executive directors
 - Approving the annual bonus outcomes for the 2021/22 financial period
 - Reviewing and approving the terms of the 2022 PSP awards
 - Overseeing the Company Share Option Plan (CSOP) and Sharesave
 - Monitoring external market practice, and developments in the governance expectations of institutional shareholders and shareholder representative bodies.
- Since the end of the 2022/23 financial year, the committee has:
- Determined the outcomes under the annual bonus plan for the year ended 28 February 2023
 - Agreed the annual bonus structure for the year ending 28 February 2024
 - Agreed the award levels and performance targets for the PSP grants to be made to eligible participants in 2023.
- The information that follows has been audited (where indicated) by BTG's auditor, EY.
- Reviewing the Group's overall remuneration structures within the current macroeconomic environment of cost-of-living pressures

Single total figure of remuneration for each director (audited)

The table below reports the total remuneration for BTG directors during the year ended 28 February 2023.

Directors' total remuneration									
£		Base salary/ fees	Benefits ¹	Annual bonus	Long-term incentives ²	Pension ³	Total	Total fixed	Total variable
Executive directors									
Neil Murphy	2022/23	390,000	15,684	366,600	–	4,017	776,301	409,701	366,600
	2021/22	375,000	4,097	356,250	–	4,017	739,364	383,114	356,250
Andrew Holden ⁴	2022/23	318,000	675	298,920	–	12,720	630,315	331,395	298,920
	2021/22	106,506	–	101,180	–	4,260	211,946	110,766	101,180
Keith Richardson ⁵	2022/23	–	–	–	–	–	–	–	–
	2021/22	204,731	1,293	–	–	2,559	208,583	208,583	–
Non-executive directors									
Patrick De Smedt	2022/23	187,200	–	–	–	–	187,200	187,200	–
	2021/22	180,000	–	–	–	–	180,000	180,000	–
David Maw ⁶	2022/23	59,280	–	–	–	–	59,280	59,280	–
	2021/22	51,750	–	–	–	–	51,750	51,750	–
Mike Phillips	2022/23	72,800	–	–	–	–	72,800	72,800	–
	2021/22	70,000	–	–	–	–	70,000	70,000	–
Erika Schraner ⁷	2022/23	52,000	–	–	–	–	52,000	52,000	–
	2021/22	25,000	–	–	–	–	25,000	25,000	–
Alison Vincent	2022/23	62,400	–	–	–	–	62,400	62,400	–
	2021/22	60,000	–	–	–	–	60,000	60,000	–
Total	2022/23	1,141,680	16,360	665,520	–	16,737	1,840,297	1,174,777	665,520
	2021/22	1,072,987	5,390	457,430	–	10,836	1,546,643	1,089,213	457,430

1 Non-salary benefits include the provision of private medical insurance, life insurance, and Neil Murphy received a long-service award payment £9,777 during the year.

2 No long-term incentives were capable of vesting for performance ending in the period.

3 The amount of employer contribution based on a percentage of base salary.

4 Joined the Board on 21 October 2021. Annual bonus for 2021/22 pro-rated over the period from the date of joining the Board.

5 Stepped down from the Board on 21 October 2021.

6 Includes annual fee for role as designated non-executive director for workforce engagement.

7 Joined the Board on 1 September 2021.

Directors' remuneration report continued

Annual bonus for the year ended 28 February 2023 (audited)

For the 2022/23 financial year, executive directors were eligible for an annual discretionary bonus, for which performance objectives with suitably challenging 12-month goals were set at the beginning of the period. These comprised measures based 80% on operating profit (adjusted for amortisation and share-based payment charges) and 20% on key strategic objectives, including those relating to maintenance of efficiency ratios, margin improvement, employee satisfaction, customer satisfaction and ESG. For simplicity, each of the key strategic objectives had a straightforward stretch target. This was considered appropriate as each objective was a quantitative measure and the weightings for each (ranging from 2% to 6% of total annual bonus potential) were not material in isolation. In addition, the committee was comfortable with an approach that for each of these key strategic objectives, stretch performance would be required for payment. No discretionary adjustments were applied in relation to the annual bonus outcome for the year. The maximum annual bonus payable was 100% of salary and the executive directors each earned bonuses of 94% of salary. The performance-related outcomes were as follows:

Performance metric	Proportion of bonus determined by metric	Threshold performance (25% of max payable)	Target performance (50% of max payable)	Stretch performance (100% of max payable)	Actual performance	Bonus earned (% of max)	Bonus earned (% of salary)
Adjusted operating profit (£m)	80%	£47,955	£53,283	£55,947	£56,377	100%	80%
Key strategic objectives	Proportion of bonus determined by metric	N/A	N/A	Target	Actual performance	Bonus earned (% of max)	Bonus earned (% of salary)
Efficiency ratio (AOP/GP)	6%	–	–	> 41.0%	43.5%	100%	6%
Margin (GP/GII)	6%	–	–	> 9.1%	9.0%	0%	0%
Employee satisfaction (eNPS)	2%	–	–	> 60	70	100%	2%
Customer satisfaction (NPS)	2%	–	–	> 60	77	100%	2%
ESG rating (ISS Quality Score)	4%	–	–	≤3 ¹	3	100%	4%
Objectives total	20%						14%
Total	100%						94%

1 Per ISS Quality Score methodology where 1/10 equates to a higher level of Environmental and Social disclosure, and to a lower level of Governance risk.

Two-thirds of the bonus is paid in cash and one-third will be deferred in shares, which will vest after a two-year period.

PSP awards vesting in the year (audited)

There were no long-term incentive awards capable of vesting in relation to performance during the year.

PSP awards granted in the year (audited)

The table below provides details of share awards made to the executive directors on 1 June 2022:

	Date of award	Type of award	Basis of award (% of salary)	Number of shares under award ¹	Face value of award (£'000)	% vesting at threshold	End of vesting period
Neil Murphy	1 June 2022	Nil cost option	150%	125,800	585	20%	31 May 2025
Andrew Holden	1 June 2022	Nil cost option	150%	102,580	477	20%	31 May 2025

1 The number of awards was calculated using a share price of £4.65, which was based on the Company's average closing share price on 27, 30 and 31 May 2022.

The LTIP awards granted on 1 June 2022 are subject to a combination of performance conditions, being adjusted earnings per share (EPS) and relative total shareholder return (TSR) compared to the constituents of the FTSE 250 (excluding real estate and equity investment trusts) measured over a three-year performance period. The targets are as set out in the following schedule:

Measure	Weighting	Performance period	Targets
Adjusted EPS	75%	Three financial years to 28 February 2025 ¹	Adjusted EPS of 18.4 pence (20% vests) rising on a straight-line basis to 50% vesting for 21.7 pence and on a straight-line basis again to full vesting for achievement of 24.1 pence
Relative TSR versus constituents of the FTSE 250 (excluding real estate and equity investment trusts)	25%	Three financial years to 28 February 2025	Median (20% vests) rising on a straight-line basis to full vesting for upper quartile performance

¹ The adjusted EPS target is based on performance in the final year of the performance period.

In addition, the committee retains discretion to reduce the overall LTIP vesting level (potentially to zero) if it considers that the underlying business performance of the company does not justify it.

A two-year holding period will apply to any awards vesting, and recovery and withholding provisions will apply in line with our approved policy.

Executive directors' share awards outstanding at the year end (audited)

Details of share options and share awards outstanding at the financial year end are shown in the following table:

Scheme	No. of shares/ options at 28 February 2022	Shares/ options granted in year	Shares/ options lapsed in year	Shares/ options exercised in year	No. of shares/ options at 28 February 2023	Date of grant	Share price at date of grant	Exercise price	Date from which exercisable	Expiry date
Neil Murphy										
DBP ¹	0	25,537	0	0	25,537	1 June 2022	£4.53	£0.01	1 June 2024	1 December 2024
PSP	0	125,800	0	0	125,800	1 June 2022	£4.53	£0.01	1 June 2025	31 May 2032
Andrew Holden										
CSOP ²	45,000	0	0	0	45,000	1 June 2021	£5.00	£5.00	1 June 2024	31 May 2031
SAYE ²	4,500	0	0	0	4,500	22 June 2021	£4.53	£4.00	1 August 2024	1 February 2025
DBP ¹	0	10,305	0	0	10,305	1 June 2022	£4.53	£0.01	1 June 2024	1 December 2024
PSP	0	102,580	0	0	102,580	1 June 2022	£4.53	£0.01	1 June 2025	31 May 2032

Key:

PSP: Performance Share Plan
DBP: Deferred Bonus Plan

CSOP: Company Share Option Plan
SAYE: Save As You Earn Plan (Sharesave)

¹ The face value of the DBP awards granted to Neil Murphy and Andrew Holden on the date of the grants was £115,683 and £46,682, respectively. These grants are not subject to any other performance conditions.

² The face value of the CSOP award granted was £225,000 based on the share price at the date of grant. The face value of the SAYE was £20,385 based on the share price at the effective date on 22 June 2021.

The closing share price of the company's ordinary shares at 28 February 2023 was £4.02, and the closing price range during the year ended 28 February 2023 was £3.59 to £5.08.

Directors' remuneration report continued

Statement of directors' shareholding and share interests (audited)

The following table shows the interests of directors and those connected to them in BTG's ordinary shares at 28 February 2023.

	No. of shares owned outright 2022/23	No. of shares owned outright 2021/22	Unvested not subject to performance	Unvested subject to performance	Shareholding as % of salary at 28 Feb 2023	Shareholding guideline as % of salary	Company shareholding guideline met
Neil Murphy	3,786,218	3,690,941	25,537	125,800	3,905%	200%	Yes
Andrew Holden	72,990	72,990	59,805	102,580	92%	200%	No
Patrick De Smedt	92,593	92,593	0	0	N/A	N/A	N/A
David Maw	17,865	14,865	0	0	N/A	N/A	N/A
Mike Phillips	74,074	74,074	0	0	N/A	N/A	N/A
Erika Schraner	10,037	10,037	0	0	N/A	N/A	N/A
Alison Vincent	6,079	3,704	0	0	N/A	N/A	N/A

These interests did not change between 28 February 2023 and the date the financial statements and reports were signed.

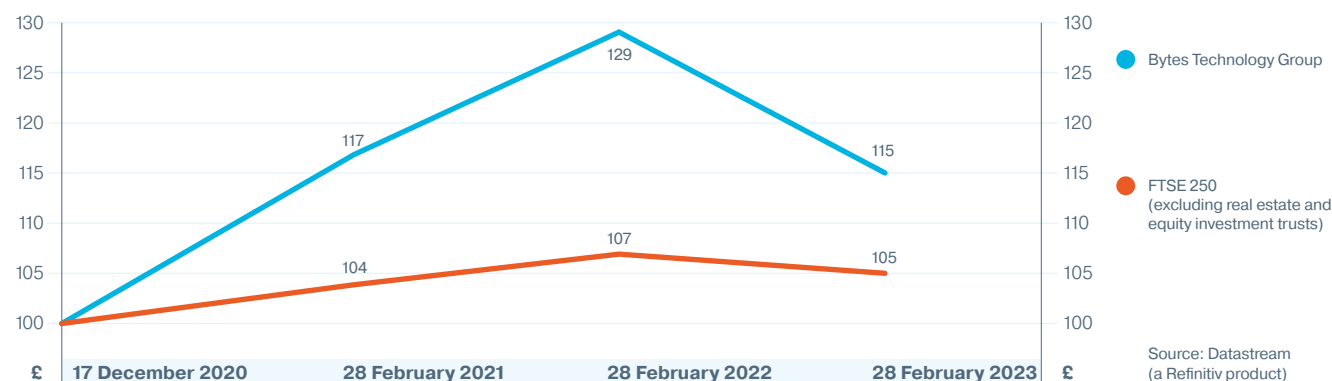
Payments for loss of office and to past directors (audited)

There were no payments for loss of office or to past directors during the year.

Total shareholder return performance

The graph below shows the value at 28 February 2023 of £100 invested in BTG on 17 December 2020, the date of our admission to trading on the London Stock Exchange, compared to £100 invested in the FTSE 250 Index (excluding real estate and equity investment trusts), on the assumption that dividends are reinvested for additional equity.

The FTSE 250 Index (excluding real estate and equity investment trusts) was selected as a comparator as BTG is a constituent. This allows our performance to be compared against the index as a whole.

**CEO's remuneration**

The total remuneration figure for the CEO in 2022/23 is shown in the table below, along with the value of bonuses paid, and PSP vesting, as a percentage of the maximum opportunity. This table will build to show a rolling 10 years' worth of data over time.

Year	CEO	CEO single figure of total remuneration	Annual bonus payout % of maximum	PSP vesting % of maximum
2022/23	Neil Murphy ¹	£776,301	94%	N/A
2021/22	Neil Murphy ¹	£739,364	95%	N/A
2020/21	Neil Murphy ^{1,2}	£92,025	100%	N/A

1 No PSP awards were eligible to vest during the period.

2 Total remuneration is the pro-rated, post-IPO figure (for the period from admission to the London Stock Exchange to 28 February 2021).

Change in directors' remuneration compared with other employees

The following table shows the percentage change in the remuneration of the executive directors and non-executive directors compared with the average change for all employees of the parent company for the year ended 28 February 2023. 2022/23 is the first year in which this table has been included as it represents the first time where two full years of data has been available since IPO. This table will build up over time to ultimately cover a rolling five-year period.

Director	Salary and fees (% change)	Taxable benefits (% change)	Annual bonus (% change)
Neil Murphy	4%	282.8%	2.9%
Andrew Holden ¹	198.6%	N/A	195.4%
Patrick De Smedt	4%	N/A	N/A
David Maw	14.6%	N/A	N/A
Mike Phillips	4%	N/A	N/A
Erika Schraner ²	108.0%	N/A	N/A
Alison Vincent	4%	N/A	N/A
All employees ³	5.7%	6.2%	21.7%

1 Annual bonus percentage increase reflective of 2022/23 increase in relation to pro-rata bonus earned in 2021/22 since date of appointment to the Board on 21 October 2021.

2 Reflective of 2022/23 increase in relation to pro-rata fees earned in 2021/22 since date of appointment to be Board on 1 September 2021.

3 Reflects the average percentage change in salary, benefits and bonus for employees of the parent company (excluding the Board). To aid comparison, the employees of the parent company are those full-time employees who were employed over the complete two-year period.

Relative importance of spend on pay

The following table shows the actual spend on pay for all BTG employees relative to dividends.

Year	Staff costs	Dividends
2022/23	£76.8m	£30.7m
2021/22	£62.7m	£4.8m ¹
% increase	22%	540%

1 2021/22 gross interim dividend.

CEO to employee pay ratio

The table below sets out the ratio between the total pay of the CEO and that of employees at the 25th, 50th (median) and 75th percentiles of BTG's UK workforce. This table will expand to show a rolling 10 years' worth of data over time.

Year	Method	25th percentile	50th percentile	75th percentile
2022/23	A	22:1	15:1	8:1
2021/22	A	24:1	15:1	8:1
2020/21	A	14:1	9:1	5:1

The 25th, 50th and 75th percentile-ranked individuals were identified using 'option A' in the reporting regulations, selected on the basis that this is the most robust and statistically accurate means of identifying the relevant people. As ratios could be unduly affected by joiners and leavers who may not participate in all remuneration arrangements in the year of joining and leaving, the committee has modified the statutory basis slightly to exclude anyone not employed throughout the entire financial year. The 25th, 50th and 75th percentile employees were identified as at 28 February 2023.

The CEO pay figure is the total remuneration sum set out in the single total figure or remuneration for each director table, with corresponding figures (on a full-time equivalent basis) calculated for the 25th, 50th and 75th percentile employees. The total pay and benefits amounts used to calculate the ratios for each of the 25th percentile, median and 75th percentile employees for 2022/23 are £35,328, £53,366 and £92,590 respectively. The corresponding salary element for each are £24,804, £47,500 and £70,493, respectively. The committee is satisfied that the CEO's remuneration is reasonable and consistent with our wider policies on employee pay, reward and progression.

External appointments

At the date of this report, no executive directors are currently non-executive directors of any company outside BTG.

Executive directors' service contracts

The table below summarises key details of the executive directors' contracts:

	Date of joining Bytes	Date of service contract	Notice period (from either party)
Neil Murphy	1997 ¹	30 October 2020	12 months
Andrew Holden	2021 ²	1 November 2021	6 months

1 Neil Murphy, appointed as CEO in 2020, has been MD of the Bytes Group since 2000, before which he was Sales Director for three years.

2 Andrew Holden joined BTG as COO on 1 June 2021 and joined the Board as CFO on 21 October 2021.

Directors' remuneration report continued

Non-executive directors' letters of appointment

The table below summarises key details of the non-executive directors' contracts:

	Date of joining Bytes	Date of letter of appointment	Date of last re-election	Notice period (from either party)
Patrick De Smedt	27 July 2020	27 July 2020	26 July 2022	1 month
David Maw ¹	15 October 2020	23 October 2020	26 July 2022	1 month
Mike Phillips	6 November 2020	19 October 2020	26 July 2022	1 month
Alison Vincent	6 November 2020	21 October 2020	26 July 2022	1 month
Erika Schraner	1 September 2021	1 September 2021	26 July 2022 ²	1 month

¹ David Maw has been a BTG non-executive director since 2000.

² Erika Schraner was elected as a non-executive director at our Annual General Meeting on 26 July 2022.

Following deliberation by the Nomination Committee, taking account of, among others, Board composition, succession planning and the intentions of the relevant members, and recommendation to the Board, Patrick De Smedt, Mike Phillips and Alison Vincent will continue to serve on the Board for another three-year period following the expiry of their initial letters of employment entered into in 2020.

Implementation of policy for the year ending 28 February 2024**Basic salary**

The committee reviews the executive directors' base salaries annually, with any increases taking effect from 1 March each year. Base salaries effective from 1 March 2023 are set out below:

	Base salary 2022/23	Base salary 2023/24	Increase
Neil Murphy	£390,000	£410,000	5%
Andrew Holden	£318,000	£334,000	5%

Benefits and pension

No changes are proposed to pension and benefits for 2023/24. Executive directors will continue to receive benefits that include private medical and life insurance and pension contributions equal to 1.48% of salary for the CEO and 4% for the CFO, in line with the policy.

Annual bonus

The maximum opportunity under the annual bonus plan will be 100% of base salary for both executive directors. One-third of the total bonus payment will be deferred into shares for two years, and recovery and withholding provisions will apply in line with our approved policy.

Bonuses will be based on targets relating to adjusted operating profit (80%) and a number of key strategic objectives (20%). The strategic objectives will include targets relating to maintenance of efficiency ratios, employee satisfaction, customer satisfaction and ESG targets. The committee has not disclosed the detailed performance targets for the forthcoming year in advance, as it considers that they include commercially sensitive matters. Retrospective disclosure of the performance against targets will be made in next year's Annual Report on remuneration, if the targets are no longer considered commercially sensitive.

Performance Share Plan

The CEO and CFO will participate in the PSP in 2023/24 and will receive awards of 150% of salary with vesting subject to the following performance conditions:

Measure	Weighting	Performance period	Targets
Adjusted EPS	75%	Three financial years to 28 February 2026 ¹	Adjusted EPS of 22.43 pence (20% vests) rising on a straight-line basis to 50% vesting for 26.45 pence and on a straight-line basis again to full vesting for achievement of 29.39 pence
Relative TSR versus constituents of the FTSE 250 (excluding real estate and equity investment trusts)	25%	Three financial years to 28 February 2026	Median (20% vests) rising on a straight-line basis to full vesting for upper quartile performance

¹ The adjusted EPS target is based on performance in the final year of the performance period.

In addition, the committee retains discretion to reduce the overall LTIP vesting level (potentially to zero) if it considers that the underlying business performance of the company does not justify it.

A two-year holding period will apply to any awards vesting, and recovery and withholding provisions will apply in line with our approved policy.

Non-executive directors' fees

For 2023/24, the non-executive directors' fees are as follows:

	Fee 2022/23	Fee 2023/24	% increase
Chair	£187,200	£187,200	—
Base fee	£52,000	£52,000	—
Senior independent director fee	£10,400	£10,400	—
Audit Committee chair fee	£10,400	£10,400	—
Remuneration Committee chair fee	£10,400	£10,400	—
Designated non-executive director for workforce engagement	£7,280	£7,280	—

Remuneration voting outcomes

At our 2022 AGM, our remuneration report was approved with 93.38% of votes cast in favour, 6.62% of votes against and 14,756 votes withheld. At our 2021 AGM, our remuneration policy was approved with 94.29% of votes cast in favour, 5.71% of votes against and 18,603 votes withheld.

On behalf of the Board.



Dr Alison Vincent

Remuneration Committee Chair
22 May 2023

Directors' report

This report covers a variety of useful information, from our Companies Act disclosures and going concern statement, to the details of our main shareholders and our forthcoming Annual General Meeting.



The directors of BTG present this report together with the audited consolidated financial statements for the year ended 28 February 2023.

The report has been prepared in accordance with the requirements outlined in The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, and forms part of the management report as required under Disclosure Guidance and Transparency Rule (DTR) 4. Certain information that fulfils the requirements of the directors' report can be found elsewhere in this report and is referred to below. The information is incorporated into this directors' report by reference.

The directors' report is made up of the governance report and this report. Other relevant information that is incorporated by reference can be found in the strategic report, including:

- An outline of the important events that occurred during the year, on pages 4 to 9
- An indication of likely future developments in the business of BTG and its subsidiaries, Bytes Software Services and Phoenix Software, on pages 6 to 9
- Financial performance, on pages 29 to 33
- Business environment, on pages 12 to 15
- Outlook and financial management strategies, including particulars of any important events affecting the company since the year end (with subsidiary undertakings included in consolidated statements), on pages 6 to 13
- Internal controls, principal risks and risk management framework, on pages 57 to 63
- Stakeholder engagement, including employee engagement, on pages 76 to 80

- Directors' biographies, on pages 68 to 70
- Section 172 statement, on pages 76 to 80.

Requirements of Listing Rule 9.8.4

Information to be included in the Annual Report and Accounts under Listing Rule 9.8.4 may be found as follows:

Relevant Listing Rule	Page
LR 9.8.4R (4): details of any long-term incentive schemes and directors' interests	100-111
LR 9.8.4R (5): details of any arrangements under which a director has waived emoluments, or agreed to waive any future emoluments, from the company	100-111

The strategic report and the directors' report together form the management report for the purposes of the Disclosure Guidance and Transparency Rules (DTR) 4.1.8R. Information relating to financial instruments can be found on page 154 and is incorporated by reference. For information on our approach to social, environmental and ethical matters, please refer to our strategic report, including our Task Force on Climate-related Financial Disclosures (TCFD) statement on page 50 to 56.

Financial risk management instruments

The company's exposure to financial risks and how these risks affect the company's future financial performance is disclosed in note 24 to the financial statements.

Research and development

The company did not carry out any research and development activities during the year (2021/22: none).

“ The company places considerable value on the involvement of its people and continues to keep them informed on matters affecting them.

WK Groenewald FCG
Group Company Secretary

Directors

The directors who held office at 28 February 2023, and up to the date of this report, are set out below and on pages 68 to 70 with their biographies. There were no changes to the composition of the Board or committees during the year ended 28 February 2023 and up to the date of approval of the financial statements. Post year end, the Board announced that David Maw will step down as a director at the conclusion of the Annual General Meeting on 12 July 2023, and that Sam Mudd will stand for election as an executive director at the AGM.

Directors

as at 28 February 2023

Name	Effective date of joining BTG Board	Position
Patrick De Smedt	15 October 2020	Independent non-executive Chair
Neil Murphy	7 October 2020 (Bytes Group managing director since 2000)	CEO
Andrew Holden	21 October 2021 (Various senior leadership positions held for more than 27 years with BTG's previous parent company, including COO and acting CFO)	CFO
David Maw	15 October 2020 (Bytes Group non-executive director since 2000)	Non-executive director
Alison Vincent	6 November 2020	Independent non-executive director
Mike Phillips	6 November 2020	Independent non-executive director
Erika Schraner	1 September 2021	Independent non-executive director

The company's Articles of Association govern the appointment, removal and replacement of directors and explain the powers given to them. All current directors except David Maw, will be standing for re-election at the AGM on Wednesday, 12 July 2023. The remuneration of the directors, including their respective shareholdings in the company, is set out in the remuneration report on pages 100 to 111.

Avoiding conflicts of interest

Since their respective dates of appointment, and up to the date of this report, no director held any beneficial interest in any contract significant to the company's business, other than a contract of employment.

The Board regularly reviews each director's interests outside BTG and considers how the Chair ensures they are applying objective judgement in their role, as required by the code. To help directors avoid conflicts (or possible conflicts) of interest, the Board must first give clearance to any potential conflicts, including directorships or other interests in outside companies and organisations. This is recorded in the company's statutory records. Should a director become aware that they, or their connected parties, have an interest in an existing or proposed transaction with the Group, they are required to notify the Board or the Group Company Secretary as soon as reasonably possible. In such an instance, unless allowed by the company's Articles of Association, the director cannot take part in any decisions about the contract or arrangement.

Directors' and officers' liability insurance and indemnification of directors

The company maintains directors' and officers' liability insurance, which gives appropriate cover should legal action be brought against its directors. The company has also provided an indemnity for its directors, which is a qualifying third-party indemnity provision, for the purposes of Section 234 of the Companies Act 2006. This was in place for the duration of the financial year ended 28 February 2023 and up to the date of approval of the financial statements.

Share capital

The issued share capital of the company at 28 February 2023 was 239,482,333 ordinary shares of 0.01 pence nominal value, with no shares held in treasury. No additional shares were issued after the year ended 28 February 2023. Note 19 to the consolidated financial statements on page 156 contains full details of the issued share capital. As far as the company is aware, there are no restrictions on the voting rights attached to its ordinary shares and there are no agreements that may result in restrictions in the transfer of securities or voting rights. No securities carry any special rights.

An analysis of shareholdings is shown on page 114. The closing mid-market price of a share of the company on 28 February 2023, together with the range since admission to the London Stock Exchange, is also shown on page 108.

Dividends and dividend policy

Our dividend policy remains a progressive one, which targets an annual dividend of 40% of the company's profits after tax before any exceptional items in each financial year. Subject to any cash requirements for ongoing investment, the Board considers returning excess cash to shareholders, as and when appropriate.

We recommend a final dividend of 5.1 pence per ordinary share, taking the total dividend to 7.5 pence per ordinary share. In addition, we recommend a special dividend of 7.5 pence per ordinary share is paid at the same time as the final dividend. Shareholders will be asked to approve the final and special dividends at the AGM on 12 July 2023.

Directors' report continued

Substantial shareholdings

As at 30 April 2023, the company had been notified under the Disclosure Guidance and Transparency Rules, or had ascertained from its own analysis, that the following held notifiable interests in the voting rights in the company's issued share capital of 3% or more of its ordinary share capital:

Shareholder	Number of voting rights	% of voting rights
Biltron	18,262,478	7.63%
JPMorgan Asset Management	16,859,404	7.04%
abrdn	16,075,414	6.71%
BlackRock, Inc.	14,348,488	5.99%
Capital Group	13,708,221	5.72%
Vanguard Group	9,132,780	3.81%
Martin Currie Investment Management	7,490,000	3.13%

Committees of the Board

The Board has established Audit, Nomination and Remuneration Committees. The Audit Committee has been mandated to also oversee and monitor BTG's enterprise risk management. For more details of these committees, including membership and key focus areas for 2022/23, are contained in this section of this Annual Report.

Remuneration voting outcomes

At our 2022 AGM, our remuneration report was approved with 93.38% of votes cast in favour, 6.62% of votes against and 14,756 votes withheld. Our current remuneration policy was approved by shareholders at our 2021 AGM on Thursday, 22 July 2021, and it took formal effect from that date. The policy will formally apply until the 2024 AGM unless a new policy is presented to shareholders before then.

Companies Act 2006 disclosures

In accordance with Section 992 of the Companies Act 2006, the directors disclose the following information:

- The company's capital structure and voting rights are summarised in note 19, and there are no restrictions on voting rights nor any agreement between holders of securities that result in restrictions on the transfer of securities or on voting rights
- The company does not hold any shares in treasury
- No securities exist that carry special rights with regard to the control of the company
- Details of the substantial shareholders and their shareholdings in the company are listed in the table above

- The Deferred Bonus Plan has been implemented from 1 June 2022. The number of shares awarded under the company's Deferred Bonus Plan for the year ended 28 February 2023 is set out in note 28 and shown on page 161
- The appointment and replacement of directors, amendment to the Articles of Association and powers to issue or buy back the company's shares are contained in the Articles of Association of the company and the Companies Act 2006
- There exist no agreements to which the company is party that may affect its control following a takeover bid
- No agreements exist between the company and its directors providing for compensation for loss of office that may occur because of a takeover bid.

Articles of Association

The company's Articles of Association set out the rights of shareholders, including voting rights, distribution rights, attendance at general meetings, powers of directors, proceedings of directors, borrowing limits and other governance controls. A copy of the Articles of Association can be requested from the Group Company Secretary.

Political donations

No donations were made for the year ended 28 February 2023 and up to the date of this report (2021/22: £nil). Generally, the company's policy remains to not make political donations, either directly or through a subsidiary. However, authority will be sought at the 2023 AGM to authorise the company to make political donations provided that the aggregate amount is not more than £50,000. This resolution has been proposed to ensure BTG and its subsidiaries do not, because of the wide-reaching definition in the Companies Act 2006, unintentionally breach the act.

Equality and diversity

The company has an equal opportunities philosophy that endeavours to treat individuals fairly and not to discriminate on the basis of gender, disability, race, national or ethnic origin, sexual orientation or marital status. Applications for employment are fully considered on their merits, and employees are given appropriate training and equal opportunities for career development and promotion.

The company is committed to ensuring that adequate policies and procedures are in place to enable disabled applicants to receive training to perform safely and effectively, and to provide development opportunities to ensure they reach their full potential. If individual becomes disabled during their employment with the company, the company will seek to provide, wherever possible, continued employment on normal terms and conditions. Adjustments will be made to the environment and duties or, alternatively, suitable new roles within the company will be secured with additional training where necessary. Details of the company's gender breakdown are given on page 39.

The company places considerable value on the involvement of its people and continues to keep them informed on matters affecting them as employees. This is carried out through a variety of methods including, but not limited to, whole-company meetings, team briefings, company days, emails and the intranet. Dr Erika Schraner will become the designated non-executive director for workforce engagement when David Maw steps down from the Board at the AGM in July 2023. At team meetings, managers are responsible for ensuring that information sharing, discussion and feedback take place on a regular basis. As a result of these meetings, management can communicate the financial and economic factors affecting the company and ensure that the views of employees are taken into account in company decisions that are likely to affect their interests.

Going concern

BTG's business activities, financial position and cash flows, together with the factors likely to affect its future performance and position, are set out in the strategic report on pages 14 to 17 and 29 to 33. Details of its objectives and policies on financial risk management are set out in note 24 to the financial statements on pages 157 to 159.

The directors have made appropriate enquiries and consider that BTG has adequate resources to continue in operational existence for the foreseeable future, which comprises the period of at least 12 months from the date of approval of the financial statements, that is 28 February 2023. There are no material uncertainties that would prevent the directors from being unable to make this statement. Accordingly, the directors continue to adopt the going concern basis in preparing BTG's financial statements.

Important events since the end of the financial year

Details of those important events affecting BTG that have occurred since the end of the financial year are set out in the strategic report and note 31 to the financial statements on page 164. As set out in note 31 of the financial statements, with effect from 18 April 2023, BTG acquired a 25.1% interest in Cloud Bridge Technologies Limited.

Auditor and disclosure of information

The directors who held office at the date of approval of this directors' report confirm that, as far as they are each aware:

- There is no relevant audit information of which the company's auditor is unaware
- Each director has taken all the steps they ought to have taken as a director to make themselves aware of any relevant audit information, and to establish that the company's auditor is aware of that information.

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

EY has expressed its willingness to continue in office as auditor. Separate resolutions will be proposed at the forthcoming AGM concerning its appointment and to authorise the Board to agree its remuneration.

Annual General Meeting

The 2023 AGM will be held at 14:00 (BST) on Wednesday, 12 July 2023, at 45 Gresham Street, London, EC2V 7BF, UK. The company will make use of the electronic voting facility provided by its registrars, Computershare Limited. The facility includes CREST voting for members holding their shares in uncertificated form. For further information, please refer to the section on online services and electronic voting in the notes to the notice of meeting.

The notice of the AGM and an explanation of the resolutions being put to the meeting are set out in the notice of meeting accompanying this Annual Report. The Board fully supports all the resolutions set out in the notice, and encourages shareholders to vote in favour of each of them as they intend to in respect of their own shareholdings.

By order of the Board

WK Groenewald FCG
Group Company Secretary
22 May 2023

Statement of directors' responsibilities

This report outlines our directors' responsibilities for ensuring that our Annual Report and financial statements comply with regulation.

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the Group financial statements in accordance with UK-adopted International Accounting Standards (IAS), and the parent company financial statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). 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 Group and the company and of the profit or loss of the Group and the company for that period.

In preparing these financial statements the directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and accounting estimates that are reasonable and prudent
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- Provide additional disclosures when compliance with the specific requirements in IFRS (and in respect of the parent company financial statements, FRS 101) is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group and company financial position and financial performance
- In respect of the Group financial statements, state whether UK-adopted IAS have been followed, subject to any material departures disclosed and explained in the financial statements

- In respect of the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and/or the Group will continue in business.

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

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

Directors' confirmations pursuant to FCA's Disclosure Guidance and Transparency Rule 4

The directors confirm, to the best of their knowledge:

- That the consolidated financial statements, prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position

and profit of the parent company and undertakings included in the consolidation, taken as a whole

- That the Annual Report, including the strategic report, includes a fair review of the development and performance of the business and the position of the company and undertakings included in the consolidation, taken as a whole, together with a description of the principal risks and uncertainties that they face.

Directors' confirmations

The directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group and parent company's position and performance, business model and strategy. In the case of each director in office at the date on which the directors' report is approved:

- As far as the director is aware, there is no relevant audit information of which the Group and parent company's auditor is unaware
- 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 Group and parent company's auditor is aware of that information.

This responsibility statement was approved by the Board of directors on 22 May 2023 and is signed on its behalf.



WK Groenewald FCG
Group Company Secretary
22 May 2023



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Independent auditor's report to the members of Bytes Technology Group plc

Opinion

In our opinion:

- Bytes Technology Group plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the parent company's affairs as at 28 February 2023 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Bytes Technology Group plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended 28 February 2023 which comprise:

Group	Parent company
Consolidated statement of financial position as at 28 February 2023	Balance sheet as at 28 February 2023
Consolidated statement of profit or loss for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of changes in equity for the year then ended	Related notes 1 to 13 to the financial statements including a summary of significant accounting policies
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 31 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and UK adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

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

Independence

We are independent of the Group and parent in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting the audit.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group and parent company's ability to continue to adopt the going concern basis of accounting included:

- Performing a walk-through of the Group's financial close process to confirm our understanding of management's going concern assessment process and engaging with management early to ensure all key risk factors identified were considered in their assessment.
- Obtaining management's going concern assessment, including the cash flow forecasts and covenant calculations for the going concern period which covers the period to 31 August 2024, then performed procedures to confirm the clerical accuracy of the underlying model including validating the credit facility assumptions.
- Assessing the Group's base scenario for consistency with cash flow forecasts used in the goodwill impairment assessment over which we have performed detailed audit procedures to challenge the base case assumptions.

- The Group has modelled a base scenario and then two downside scenarios, being a severe but plausible downside scenario and a stressed scenario in order to incorporate unexpected changes to the forecasted liquidity of the Group. We have performed audit procedures to challenge the base case and the severe case assumptions included in each modelled scenario for the cash forecast and covenant calculation and we have considered the potential impact of geopolitical and macroeconomic risks such as increases in energy costs, cost of sales and wages inflation; inflation and rising interest rates impacting customer spending and customer payments.

We noted that the key assumptions present were forecast gross invoiced income growth rates, gross profit growth rates, headcount and base pay growth rates, overhead growth rates and debtor days. We agreed the forecasts to Board approved budgets and we performed enquiries with management to understand the basis of the key assumptions and performed procedures to assess their appropriateness, such as reviewing the growth rate assumptions within the context of historic performance. We critically assessed management's ability to accurately forecast through look back analysis on the last three years of historic financial data and, where possible, corroborating these assumptions to external data points such economic forecasts and competitor trading updates. Reviewing management's stress test of their cash forecasts and covenant calculations in order to quantify then assess the likelihood of the downside scenarios required to exhaust the Group's forecast liquidity and breach the Group's covenant ratios.

- Considering the impact and feasibility of potential mitigating activities that are within control of the Group, such as freezing planned growth in headcount, pay rises, and reducing dividend payments.
- Reviewing the Group's going concern disclosures included in the Annual Report in order to assess their completeness and conformity with the reporting standards, market practice and FRC guidance.

We observed that at 28 February 2023, the Group had cash and cash equivalents of £73 million in addition to the Group's RCF facility of £30 million which is undrawn. On 17 May 2023, the Group's previous facility is replaced by a facility of the same amount and runs for three years, until May 2026. The new facility includes an optional one-year extension to April 2027 and a non-committed £20 million accordion to increase the availability of funding should it be required for future activity. 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 Group and parent company's ability to continue as a going concern for a period until 31 August 2024, being the going concern assessment period.

In relation to the Group and parent company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Overview of our audit approach

Audit scope	<ul style="list-style-type: none"> – We performed an audit of the complete financial information of three components and audit procedures on specific balances for a further six components. – The components where we performed full or specific audit procedures accounted for 100% of the Group's profit before tax, 100% of the Group's revenue and 100% of the Group's total assets.
Key audit matters	<ul style="list-style-type: none"> – Misstatement of revenue recognised at or near period end – Misstatement of rebate receivable to overstate reported results at period end – IFRS15 presentation and disclosure in respect of principal versus agent
Materiality	<ul style="list-style-type: none"> – Overall Group materiality of £2.5 million which represents 5% of profit before tax (PBT).

Independent auditor's report to the members of Bytes Technology Group plc continued

An overview of the scope of the parent company and Group audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, changes in the business environment, the potential impact of climate change and other factors such as recent Internal audit results when assessing the level of work to be performed at each company.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the nine reporting components of the Group, we selected nine components covering entities within the United Kingdom, which represent the principal business units within the Group.

Of the nine components selected, we performed an audit of the complete financial information of three components ('full scope components') which were selected based on their size or risk characteristics. For the remaining six components ('other scope components'), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

Audit procedures performed on the three full scope components, located in two different locations in the UK, accounted for 100% (2022: 100%) of the Group's profit before tax, 100% (2022: 100%) of the Group's revenue and 99% (2022: 89%) of the Group's total assets. The remaining six components represents less than 1% (2022: 1%) of the Group's profit before tax and revenue and 1% (2022: 11%) of the Group's total assets. To respond to any potential risks of material misstatement to the Group financial statements, we performed other procedures on these components, including analytical review, confirmation of bank balances, and verification that intercompany and intra-group investment balances were eliminated as part of the consolidation.

Changes from the prior year

Our full scope locations and other procedures components are consistent with the prior year. We believe our overall coverage is comparable and appropriate for the risk of the business.

Involvement with component teams

In establishing our overall approach to the Group audit, the Senior Statutory Auditor, James Harris, determined the type of work that needed to be undertaken at each of the components.

As Bytes Group management and trading components (Bytes Software Services and Phoenix Software) operate solely in the UK, we have performed the audit using a single integrated Group team. Therefore, of the three full scope components, audit procedures were performed directly by the primary audit team. Overseen by the Senior Statutory Auditor, the Group audit team designs, executes, reviews and concludes on all work performed, operating as a single audit team across both locations. This integrated team performed all audit procedures at all three full scope components as well as procedures at other scope components. Procedures over all components were seen by the Senior Statutory Auditor including the design, execution and conclusion on all work performed.

Climate change

There has been increasing interest from stakeholders as to how climate change will impact companies. Bytes Technology Group plc has determined that there are no future impacts from climate change on its operations. This is explained on pages 50 to 56 in the Task Force for Climate-related Financial Disclosures and on pages 60 to 63 in the principal risks and uncertainties, which form part of the "Other information" rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

Our audit effort in considering climate change was focused on evaluating management's assessment that there is no impact of climate change risk, the adequacy of the Group's disclosures in the financial statements and the conclusion that no issues were identified that would impact on the accounting judgements and estimates in the current year and no material impact on assets and liabilities as at 28 February 2023. We also challenged the directors' considerations of climate change in their assessment of going concern and viability and associated disclosures.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Misstatement of revenue recognised at or near period end</p> <p><i>Refer to the Audit Committee Report (page 83); Accounting policies (page 138); and note 3 of the Consolidated Financial Statements (page 146).</i></p> <p>The Group has reported revenue of £184.4 million (2022: £145.8 million).</p> <p>Revenue reported in accordance with IFRS 15 Revenue from Contracts with Customers is a key financial metric for the business.</p> <p>Compensation incentives are also based on gross profit or adjusted operating profit targets, creating a risk of revenue misstatement through management override.</p> <p>Management's process for accounting for certain revenue transactions, particularly the review process at or near the year end is mostly manual and therefore susceptible to error (either deliberate or without intent).</p> <p>There is therefore a risk that revenue is recognised prematurely or fictitiously around period end or revenue is held back to distort earnings between periods.</p> <p>The overall risk of revenue recognition has remained consistent compared to the prior year.</p>	<p>We have performed the following audit procedures on revenue transactions (included in gross invoiced income):</p> <ul style="list-style-type: none"> • Re-confirmed our understanding of management's process in determining the revenue recognition point and understood the process of entering into a contract and agreeing terms with customers, and how contracts are then assessed to ensure correct revenue recognition terms are applied through discussions held. • Assessed revenue cut-off by testing transactions recorded before and after the year end on a sample basis by vouching to proof of satisfaction of the related evidence of whether or not performance obligations had been satisfied. • Addressed the risk of management override by testing a sample of manual journal entries recorded at or near year end by verifying these to supporting documentation. • Tested a sample of credit notes issued subsequent to the year end. • Tested a sample of sales transactions related to the rendering of services which were deferred at the year end and recalculated the deferred elements to obtain assurance over the calculation of deferred revenue. • Utilised data analytics to analyse the full population of sales-related journal entry data to track sales from revenue through to accounts receivable through to cash collection. We used this analysis to validate the appropriateness of transaction flow and test a sample of transactions to determine if the journals accurately reflected the substance of the transaction recorded. <p>We performed full scope audit procedures over this risk area in two locations, which covered 100% of the risk amount.</p>	<p>Through our procedures performed we have not identified any unsupported manual adjustments to revenue, or any unexplained anomalies.</p> <p>We conclude that the revenue recognised at or near year end was properly accounted for and that revenue has been appropriately recognised in accordance with IFRS 15.</p>

Independent auditor's report to the members of Bytes Technology Group plc continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Misstatement of rebate receivable to overstate reported results at period end</p> <p><i>Refer to the Audit Committee Report (page 83); Accounting policies (page 140).</i></p> <p>The Group has reported a year-end rebate receivable of £5.1 million (2022: £3.5 million).</p> <p>Bytes Technology Group plc has rebate arrangements with suppliers, which are based on agreed percentages of sales made to the customers during the current rebate period.</p> <p>While most rebates are agreed with the supplier and received during the year, there is a degree of estimation at or around the year end when the rebate is accrued ahead of the full information on the rebate being available. The resulting estimation uncertainty around the rebate receivable balance therefore provides scope for the use of management override to influence reported amounts through the estimated rebate adjustments posted to cost of sales.</p> <p>The overall risk over rebate receivable has remained consistent compared to the prior year.</p>	<p>We have performed the following audit procedures:</p> <ul style="list-style-type: none"> • Updated our understanding of the procedures and controls in place over the recognition and recording of rebates including understanding the key assumptions used within management's determination of the estimate. • Independently tested a sample of the rebate receivable balance at year end and vouched back to third-party source documentation, including subsequent cash or credit notes received. • Analysed the rebate receivable balance by vendor and compared the largest vendor balances against 28 February 2022. Performed an analysis to understand the drivers if increases or decreases in the underlying balances. • Made enquires of management to understand the movements in rebate trends that are not in line with our expectations or understanding of the business. • Assessed the accuracy of management's previous estimates as tested as at 28 February 2022 and 31 August 2022. • Tested a sample of rebate transactions recorded to the statement of profit and loss throughout the year to underlying support to consider whether the transactions have been recorded appropriately. <p>We performed full scope audit procedures over this risk area in two locations, which covered 100% of the risk amount.</p>	<p>We concluded that the rebate receivable at the year end and the corresponding rebates income is appropriate in accordance with IFRS.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>IFRS 15 presentation and disclosure in respect of principal versus agent</p> <p><i>Refer to the Audit Committee Report (page 84); Accounting policies (page 135); and note 3 of the Consolidated Financial Statements (page 146).</i></p> <p>The Group has recognised an agency adjustment of £1,254.9 million (2022: £1,062 million) in respect of income to be recognised net as agent under IFRS 15.</p> <p>During the year, the Group has reassessed its accounting policy in respect of whether it was acting as a principal or agent for certain revenue transactions as a result of the IFRIC agenda decision. The Group has determined that for all software sales it is acting as an agent in performing its contractual obligation.</p> <p>The Group makes a judgement as to whether the Group is a principal or agent against each specified good or service. There is a risk that the reported revenue may be incorrectly presented as a result of incorrectly assessing whether the Group has control over the products or services sold and consequently if the Group is principal or agent in its arrangements with customers. The overall process to categorise the population between principal or agent is manual in nature and thus susceptible to error.</p>	<p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> • Re-confirmed our understanding of management's processes, methodologies and judgements in identifying and categorising revenue transactions as principal (gross) or agent (net) based on the new accounting policy. • In relation to the change in accounting policy our procedures included obtaining and reviewing management's revised accounting policy, focusing on management's judgement applied as to whether it is acting as a principal or agent for all software sales. • Tested a sample of transactions across the year to determine the Group's control over the product or service including: <ul style="list-style-type: none"> – Verifying the product type by obtaining evidence for each transaction and agreeing back to underlying data, such as customer purchase order, to determine the Group's categorisation of the product or service. – Tested the related cost for the sample selected by tracing through to supporting purchase invoices. – Assessed whether principal (gross) or agent (net) treatment should be applied and compared to management's conclusion. • Reperformed management's agency adjustment calculation to ensure this has been performed correctly, i.e., the revenue, cost of sales and margin agency adjustment is correct. We verified that management's methodologies and categorisations appropriately considered new product types identified during the year. • Obtained and reviewed management's disclosures with regards to the change in accounting policy as well as reviewed the appropriateness of the presentation of the restated prior period balances as per IAS 8. • Obtained and reviewed management's assessment identifying new product types in the year and determination of the appropriate revenue categorisation to be applied to each new product. 	<p>We concluded that the presentation of revenue transactions is appropriate and have been prepared in accordance with IFRS 15.</p>

Independent auditor's report to the members of Bytes Technology Group plc continued

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £2.5million (2022: £2.0 million), which is 5% (2022: 5%) of profit before tax. We believe that profit before tax provides the most relevant measure of underlying performance to the stakeholders of the Group. The increase in the current year is in line with the increase in profitability in the year.

We determined materiality for the Parent Company to be £6.8 million (2022: £6.7 million), which is 1% (2022: 1%) of total equity.

During the course of our audit, we reassessed initial materiality as part of our routine procedures and noted this to be consistent to that communicated at planning (£2.4 million).

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2022: 50%) of our planning materiality, namely £1.2 million (2022: £1 million). We have set performance materiality at this percentage due to our overall risk assessment and expectations on misstatements.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £0.2 million to £1.1 million (2022: £0.2 million to £0.9 million).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.1 million (2022: £0.1 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 116, including the Strategic report set out on pages 1 to 66 and the Governance report set out on pages 67 to 116, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with 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 those reports have been prepared in accordance with applicable legal requirements;
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- information about the company's corporate governance statement and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent 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; or
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited 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; or
- a Corporate Governance Statement has not been prepared by the company

Corporate Governance Statement

We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group and company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 115;
- Directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on pages 65 to 66;
- Director's statement on whether it has a reasonable expectation that the group will be able to continue in operation and meets its liabilities set out on page 115;
- Directors' statement on fair, balanced and understandable set out on page 116;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 57 to 63;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 86; and;
- The section describing the work of the audit committee set out on pages 81 to 91.

Independent auditor's report to the members of Bytes Technology Group plc continued

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 116, 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 Group and parent 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 Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are those related to the reporting framework (UK adopted international accounting standards, the Companies Act 2006, the UK Corporate Governance Code 2018 and in regard to the parent company financial statements, UK GAAP including FRS 101) and the relevant tax compliance regulations in the UK.
- We understood how Bytes Technology Group plc is complying with those frameworks by making enquires of management and those responsible for legal and compliance matters. We corroborated our enquiries through our review of board minutes and discussions with those charged with governance.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud and by assessing key assumptions over significant estimates made by management for evidence of bias. We also considered the performance targets and their propensity to influence efforts made by management to manage revenue and earnings. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls.
- Where the risk was considered to be higher, including areas impacting Group key performance indicators or management remuneration, we performed audit procedures to address each identified fraud risk or other risk of material misstatement. These procedures included those on revenue recognition and rebates detailed above as well as testing manual journals; and were designed to provide reasonable assurance that the financial statements were free from fraud and error. We performed journal entry testing, focusing on the key audit matters, as described in the section above, the testing of manual consolidation journals and journals that indicated large or unusual transactions based on our understanding of the business.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures included a focus on compliance with the accounting and regulatory frameworks and other relevant legislations through obtaining sufficient audit evidence in line with the level of risk identified, in conjunction with compliance with relevant legislation including tax computations and returns and corroborated that dividend payments complied with the relevant legal requirements.

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

Other matters we are required to address

- Following the recommendation from the Audit Committee we were appointed by the company on 25 February 2021 to audit the financial statements for the year ending 28 February 2021 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is three years, covering the years ending 28 February 2021 to 28 February 2023.

- The audit opinion is consistent with the additional report to the Audit Committee.

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.

James Harris (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Southampton

22 May 2023

Consolidated statement of profit or loss

For the year ended 28 February 2023

	Note	Year ended 28 February 2023 £'000	Year ended 28 February 2022 (Restated) £'000
Revenue	1.6, 3	184,421	145,836
Cost of sales		(54,848)	(38,475)
Gross profit		129,573	107,361
Administrative expenses	4	(77,753)	(65,057)
Impairment on trade receivables	16	(937)	(149)
Operating profit		50,883	42,155
Finance costs	7	(491)	(589)
Profit before taxation		50,392	41,566
Income tax expense	8	(9,971)	(8,712)
Profit after taxation		40,421	32,854
Profit for the period attributable to owners of the parent company		40,421	32,854
		Pence	Pence
Basic earnings per ordinary share	29	16.88	13.72
Diluted earnings per ordinary share	29	16.28	13.42

The consolidated statement of profit or loss has been prepared on the basis that all operations are continuing operations.

There are no items to be recognised in other comprehensive income and hence, the Group has not presented a statement of other comprehensive income.

Consolidated statement of financial position

As at 28 February 2023

	Note	As at 28 February 2023 £'000	As at 28 February 2022 £'000
Assets			
Non-current assets			
Property, plant and equipment	9	8,380	8,049
Right-of-use assets	10	783	928
Intangible assets	11	41,526	42,832
Contract assets	12	397	125
Total non-current assets		51,086	51,934
Current assets			
Inventories	14	58	96
Contract assets	12	10,684	6,591
Trade and other receivables	16	185,920	157,610
Current tax asset		–	219
Cash and cash equivalents	17	73,019	67,118
Total current assets		269,681	231,634
Total assets		320,767	283,568
Liabilities			
Non-current liabilities			
Lease liabilities	10	(917)	(992)
Contract liabilities	13	(1,976)	(1,495)
Deferred tax liabilities	8	(635)	(1,189)
Total non-current liabilities		(3,528)	(3,676)
Current liabilities			
Trade and other payables	18	(231,717)	(217,612)
Contract liabilities	13	(23,914)	(14,528)
Current tax liabilities		(36)	–
Lease liabilities	10	(75)	(185)
Total current liabilities		(255,742)	(232,325)
Total liabilities		(259,270)	(236,001)
Net assets		61,497	47,567
Equity			
Share capital	19	2,395	2,395
Share premium	19	633,636	633,636
Share-based payment reserve	20	7,235	3,072
Merger reserve	21	(644,375)	(644,375)
Retained earnings	22	62,606	52,839
Total equity		61,497	47,567

The consolidated financial statements on pages 128 to 164 were authorised for issue by the Board of directors on 22 May 2023 and were signed on its behalf by:



Neil Murphy
Chief Executive Officer



Andrew Holden
Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 28 February 2023

	Note	Attributable to owners of the company					Total equity £'000
		Share capital £'000	Share premium £'000	Share-based payment reserve £'000	Merger reserve £'000	Retained earnings £'000	
Balance at 1 March 2021		2,395	633,636	317	(644,375)	24,775	16,748
Total comprehensive income for the year		–	–	–	–	32,854	32,854
Dividends paid	25(b)	–	–	–	–	(4,790)	(4,790)
Deferred tax	8	–	–	192	–	–	192
Share-based payment transactions	28	–	–	2,563	–	–	2,563
Balance at 28 February 2022		2,395	633,636	3,072	(644,375)	52,839	47,567
Total comprehensive income for the year		–	–	–	–	40,421	40,421
Dividends paid	25(b)	–	–	–	–	(30,654)	(30,654)
Deferred tax	8	–	–	(25)	–	–	(25)
Share-based payment transactions	28	–	–	4,188	–	–	4,188
Balance at 28 February 2023		2,395	633,636	7,235	(644,375)	62,606	61,497

Consolidated statement of cash flows

For the year ended 28 February 2023

	Note	Year ended 28 February 2023 £'000	Year ended 28 February 2022 £'000
Cash flows from operating activities			
Cash generated from operations	23	48,889	61,719
Interest paid	7	(443)	(532)
Income taxes paid		(10,295)	(9,138)
Net cash inflow from operating activities		38,151	52,049
Cash flows from investing activities			
Payments for property, plant and equipment	9	(1,363)	(617)
Net cash outflow from investing activities		(1,363)	(617)
Cash flows from financing activities			
Principal elements of lease payments	10	(233)	(258)
Dividends paid to shareholders	25(b)	(30,654)	(4,790)
Net cash outflow from financing activities		(30,887)	(5,048)
Net increase in cash and cash equivalents		5,901	46,384
Cash and cash equivalents at the beginning of the financial year		67,118	20,734
Cash and cash equivalents at end of year	17	73,019	67,118

STRATEGIC REPORT

GOVERNANCE REPORT

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Notes to the financial statements

1 Accounting policies

1.1 General information

Bytes Technology Group plc, together with its subsidiaries ('the Group' or 'the Bytes business') is one of the UK's leading providers of IT software offerings and solutions, with a focus on cloud and security products. The Group enables effective and cost-efficient technology sourcing, adoption and management across software services, including in the areas of security and cloud. The Group aims to deliver the latest technology to a diverse and embedded non-consumer customer base and has a long track record of delivering strong financial performance. The Group has a primary listing on the Main Market of the London Stock Exchange (LSE) and a secondary listing on the Johannesburg Stock Exchange (JSE).

1.2 Basis of preparation

The Group's consolidated financial statements have been prepared in accordance with UK-adopted International Accounting Standards (IAS) in conformity with the requirements of the Companies Act 2006.

The Group's accounting and presentation considerations on both the current and comparative periods are detailed below.

In adopting the going concern basis for preparing the financial statements, the directors have considered the business activities and the Group's principal risks and uncertainties in the context of the current operating environment. This includes the current geo-political environment, the current challenging economic conditions, and reviews of future liquidity headroom against the Group's revolving credit facilities, during the period under assessment. The approach and conclusion are set out fully in note 1.3.

The consolidated financial statements have been prepared on a historical cost basis, as modified to include derivative financial assets and liabilities at fair value through the consolidated statement of profit or loss.

1.3 Going concern

The going concern of the Group is dependent on maintaining adequate levels of resources to continue to operate for the foreseeable future. The directors have considered a number of principal risks which are set out in the Group's risk report within the strategic report in addition to ever present risks such as the Group's exposure to credit risk as described in note 16 and liquidity risk, currency risk and foreign exchange risk as described in note 24.

When assessing the going concern of the Group, the directors have reviewed the year-to-date financial actuals, as well as detailed financial forecasts for the period up to 31 August 2024, being the going concern assessment period.

The assumptions used in the financial forecasts are based on the Group's historical performance and management's extensive experience of the industry. Taking into consideration the impact of the current economic conditions and geopolitical environment, along with future

expectations, the forecasts have been stress tested to ensure that a robust assessment of the Group's working capital and cash requirements has been performed.

Operational performance and operating model

The Group is now reporting its third year of strong growth since it listed in December 2020. In the current year of reporting, the Group has achieved double-digit growth in gross invoiced income, revenue, gross profit, and operating profit, all in the high teens or low twenties percentages, and finished the year with £73.0 million of cash compared to the prior year £67.1 million.

During the year customers have continued to move their software products and data off-site and into the cloud, requiring the Group's advice and ongoing support around this, as well as needing flexibility and added security with hybrid working now the norm for many customers.

Resilience continues to be built into the Group's operating model from its wide customer base, high levels of repeat business, strong vendor relationships, increased demand driven by heightened IT security risks, and the back-to-back nature of most of its sales. This is explained further below.

- The Group's income includes a large volume of non-discretionary spend from UK corporates as IT is vital to establish competitive advantage in an increasingly digital age. Public sector organisations have similarly sought efficiencies, resilience, and security within their IT infrastructures. This mix of private and public customers means that a downturn in one area can be compensated for by upturns in others. Risk is further mitigated by the fact that none of the Group's wide range of customers contributes more than 5% of total gross invoiced income or more than 1.5% of total gross profit.
- Due to the nature of licensing schemes and service contracts, a high proportion of business is repeatable in nature with subscriptions needing to be renewed for the customer to continue to enjoy the benefit of the product or service. The largest software contracts, Microsoft enterprise agreements (EAs), run for three years and it is rare to lose a contract mid-term which mitigates the risk of income reducing rapidly. The Group has a high success rate in securing renewals of existing EA agreements and winning new ones.

Increasingly customers transact their cloud software requirements under usage-based cloud solution provider (CSP) contracts which provide flexibility but also makes the running of many of their key business functions dependent on maintaining these agreements, and reliant on the Group's support managing them.

The high level of customer retention and growth is illustrated by the renewal rate for the year of 116%, a measure of the rate of growth in gross profit from existing customers, who also contributed 96% of total gross profit in the year. The Group will continue to focus on increasing its customer base and spend per customer during the going concern period.

- With 65% of the Group's gross invoiced income and over 50% of gross profit generated from sales of Microsoft products and associated service solutions, this is a very important partnership for both parties. As from the customer side, the licensing of a large proportion of EA software over three-year terms reduces the risk of income falling away quickly. Also, with the notable move towards more agile 'pay as you go' CSP contracts around cloud-based applications, this makes those agreements even more 'sticky' by increasing the dependency of the customer on the cloud infrastructure and products which Microsoft provides.
- Further, it has created the opportunity for the Group to develop a host of skill sets so it is best placed to advise and support the customers in whatever direction they choose to fulfil their licensing requirements from a programmatic, purchasing and consumption perspective. To this end, the Group has attained high levels of Microsoft expert status, specialisations, and solution partner designations in numerous Microsoft technology areas. In turn, Microsoft rewards partners who have these awards with additional levels of funding. The Board is engaged directly with Microsoft executives in developing the partnership further and Microsoft business is currently growing at double-digit rates.
- Within the Microsoft program offerings, and also those of other vendors, including dedicated security software providers, the Group has seen an increased demand for security products and functionality to protect customer IT systems. This has arisen from the increased risk of cyber threats and attacks, and has generated additional requirements for the Group's support in this area.
- The Group's business is substantially derived from the sale of software which it transacts on a 'back-to-back' basis, meaning all orders placed with vendors follow the receipt of a customer order, and the intangible nature of software products means that the Group is not exposed to inventory risk. Hardware sales are also made on a back-to-back basis, and delivered direct from suppliers to customers, so the Group is not required to invest in, or hold, stock.

As a result of these factors described above, the directors believe that the Group operates in a resilient industry, which will enable it to continue its profitable growth trajectory but are also very aware of the risks which exist in the wider economy.

Whilst the Covid-19 pandemic has had limited negative impact over the past three years, as illustrated by the Group results over that period, the business remains vigilant around the safety of staff at work and who are all fully equipped to work from home if required to enable smooth and uninterrupted service provision to customers.

Over the past year other risks have become more prominent around energy, wage, and commodities inflation; supply problems caused by the conflict in Ukraine; product shortages; and climate change.

These risks align to those identified in our principal risks statement, notably economic disruption, inflation, and attraction and retention of staff. The Board monitor these macroeconomic and geopolitical risks on an ongoing basis. They are considered further below.

Macroeconomic risks

- Energy cost inflation – Our businesses are not naturally heavy consumers of energy, and hence this element of our overall cost base is very small at less than 0.5% of the total group administrative expenses. Even a substantial percentage rise would not have a significant impact on our operating profit.
- Cost of sale inflation – Pricing from our suppliers may be at risk of increasing, particularly those whose underlying currency is USD. However, our commercial model is based on passing on supplier price increases to our customers. During the year the maintenance of our gross profit/gross invoiced income (GP/GII%) has demonstrated this, despite the fall in the value of sterling over that period. This is one of the biggest focus areas in our business and has been maintained despite market and competitive pressures. Software sales is the biggest component of our GP, hence it's the most susceptible to price pressures and margin squeeze, and yet we have maintained its GP/GII% during the year.
- Wage inflation – the business has been facing pressure from wage inflation since the Covid-19 restrictions were eased and the labour market opened up again. Where strategically required we have increased salaries to retain key staff in the light of approaches from competitors, especially where staff have specialist or technical skills, but there is always a line which we will not cross. We monitor our staff attrition rate and maintained a level below 15% which is consistent with last year. We do not believe there has been any significant outflow of staff due to being uncompetitive with salaries. We have a strong, collaborative, and supportive culture and offer our staff employment in a business which is robust and which they are proud of, and this is a key part of our attraction and retention strategy.

Moreover, when we look at our key operational efficiency ratio of adjusted operating profit/gross profit (AOP/GP) we have achieved 43.5% which is in line with the 43.1% from last year, hence demonstrating the control over rising staff costs in response to the growth of the business. Whilst we have already aligned staff salaries to market rates, further expected rises have been factored into the financial forecasts in line with those awarded in the past year.

- Interest rates – interest rates rising rapidly in the UK and internationally will have a negative financial impact on many organisations and households. The Group however does not have any debt, nor has it ever needed to call upon its revolving credit facility. Therefore, this does not currently, or in the foreseeable future, affect our income statement or cash flow.

Notes to the financial statements continued

1.3 Going concern continued

- Foreign currency rate changes – as already mentioned above, we have withstood significant reductions in the value of the pound throughout the year and yet maintained our GP/GII%. Our foreign currency transactions are only a very small part of our business. At the end of the year, we have just £1.5 million net exposure in USD and £0.1 million net in Euros.
- Inflation and rising interest rates impacting on customer spending – whilst customers may consider reducing spending on IT goods and services, if it is seen as non-essential, we have seen increased spending by our customers as these areas may in fact be a means to efficiency and savings elsewhere. During the Covid-19 pandemic we saw many customers undergo significant IT transformation, trending to the cloud, automation, and managed service and with growing cybersecurity concerns also heightening the requirements for IT security. We are seeing a continuation in this movement and no let-up in demand, as illustrated by our reported trading performance. This is supported by our very robust operating model which has been explained above, with business spread over many customers in repeat subscription programs and service contracts, and high renewal rates.
- Inflation and rising interest rates impacting on customer payments – whilst we saw an increase in debt collection periods during the year, with some customers taking longer to pay, this has reduced towards the end of the year. In part, this is connected with the trend to more cloud-based software programs as noted above under our operating model analysis, whereby customers pay in arrears based on software usage rather than upfront. However, there has been no evidence that customers ultimately do not pay, and we have suffered only a small level of bad debt during the year, £145,000 against gross invoiced income of £1.4 billion (see note 16). As in the previous year 60% of our GII came from the public sector, traditionally very safe and with low credit risk, whilst our corporate customer base includes a wide range of blue-chip organisations and with no material reliance on any single customer.

Geopolitical risks

The current geopolitical environment, most notably the conflict in Ukraine, has created potential supply problems, product shortages and general price rises particularly in relation to fuel, gas and electricity.

- As noted above, increasing energy prices are not having a noticeable impact on our profitability.
- In terms of supply chain, we are not significantly or materially dependent on the movement of goods and hence physical trade obstacles are not likely to affect us directly. Hardware only made up 3% of our GII during the year and 3% of GP. Whilst we are conscious of the fact that lead times for hardware supply have increased, and this has been a trend over the past two or three years, we have ensured that we have a number of suppliers with substitute, or alternative,

technologies which we can rely on if one supplier cannot meet our requirements or time scales; this indicates that we have managed the supply chain well.

- Software sales though continue to be the dominant element of our overall GII and hence is not inherently affected by cross-border issues.

Climate change risks

The Group does not believe that the effects of climate change will have a material impact on its operations and performance over the going concern review period considering:

- The small number of UK locations it operates from
- A customer base substantially located within the UK
- A supply chain which is not reliant on international trade and does not source products and services from parts of the world which may be impacted more severely by climate change
- It sells predominantly electronic software licences and so has no manufacturing or storage requirements
- Its workforce can work seamlessly from home should any of their normal work locations be impacted by a climatic event, although in the UK these tend to be thankfully infrequent and not extreme.

Climate risks are considered fully in the Task Force on Climate-related Financial Disclosures (TCFD) included in the Annual Report.

Liquidity and financing position

At 28 February 2023, the Group held instantly accessible cash and cash equivalents of £73.0 million.

The balance sheet shows net current assets of £13.9 million at year end, this amount is after the Group paid final and special dividends for the prior year totalling £24.9 million and an interim dividend for the current year of £5.7 million. Post year end the Group has remained cash positive and this is expected to remain the case with continued profitable operations in the future and customer receipts collected ahead of making the associated supplier payments.

The Group has access to a committed revolving credit facility (RCF) of £30 million with HSBC. The facility commenced on 17 May 2023, replacing the Group's previous facility for the same amount and runs for three years, until 17 May 2026. The new facility includes an optional one-year extension to 17 May 2027 and a non-committed £20 million accordion to increase the availability of funding should it be required for future activity. To date, the Group has not been required to use either its previous or new facilities, and we do not forecast use of the new facility over the going concern assessment period.

Approach to stress testing

The going concern analysis reflects the actual trading experience through the financial year to date, as well as detailed financial forecasts for the period up to 31 August 2024, being the going concern assessment period. The Group has taken a measured approach to its forecasting and has balanced the expected trading conditions with available opportunities.

In its assessment of going concern, the Board has considered the potential impact of the current economic conditions and geopolitical environment as described fully above, most notably general inflation, wage inflation, the conflict in Ukraine and, climate change. If any of these factors leads to a reduction in spending by the Group's customers, there may be an adverse effect on the Group's future gross invoiced income, gross profit, operating profit, and debtor collection periods. Under such downsides the Board have factored in the extent to which they might be offset by reductions in headcount, recruitment freezes, and savings in pay costs (including commissions and bonuses). As part of the stressed scenario, where only partial mitigation of downsides is possible, the Board confirmed that the RCF would not need to be used during the going concern period up to 31 August 2024.

Details of stress testing

The Group assessed the going concern by comparing a base case scenario to two downside scenarios and in each of the downside cases taking into consideration two levels of mitigation, 'full' and 'partial'. These scenarios are set out below:

- Base case was forecast using the Board-approved budget for the year ending 28 February 2024 and extended across the first six months of the following year to 31 August 2024
- Downside case 1, Severe but plausible, modelled gross invoiced income reducing by 10% year on year, gross profit reducing by 15% year on year and debtor collection periods extending by five days, in each case effective from June 2023
- Downside case 2, Stressed, modelled both gross invoiced income and gross profit reducing by 30% year on year and debtor collection periods extending by ten days, again in each case effective from June 2023
- Partial mitigation measures modelled for the downsides were to freeze future pay and new recruitment from March 2024 and 'self-mitigating' reduction of commissions in line with falling gross profit
- Full Mitigation additionally modelled headcount reductions from March 2024 in line with falling gross profit.

The mitigations applied in the downside scenarios relate to pay costs and headcount which are within the control of the Group to implement quickly in response to any downward trends should they be necessary. While these mitigating actions have only been forecast from March 2024 for the purposes of the going concern assessment, they could be implemented much sooner, notably an earlier recruitment freeze and non-replacement of natural leavers, either immediately or within a small number of months following the decline in income and profits.

Under all scenarios assessed, the Group would remain cash positive throughout the whole of the going concern period with dividends forecast to continue to be paid in line with the Group's dividend policy to distribute 40% of the post-tax pre-exceptional earnings to shareholders.

The directors consider that the level of stress testing is appropriate to reflect the potential collective impact of all the macroeconomic and geopolitical matters described and considered above.

Going concern conclusion

Based on the analysis described above, the Group has sufficient liquidity headroom through the forecast period. The directors therefore have reasonable expectation that the Group has the financial resources to enable it to continue in operational existence for the period up to 31 August 2024, being the going concern assessment period. Accordingly, the directors conclude it to be appropriate that the consolidated financial statements be prepared on a going concern basis.

1.4 Critical accounting estimates and judgements

The preparation of the consolidated financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

This note provides an overview of the areas that involved significant judgement or complexity. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Detailed information about each of these estimates and judgements is included in other notes, together with information about the basis of calculation for each affected line item in the consolidated financial statements.

(i) Key accounting judgements

The areas involving key accounting judgements are:

- **Revenue recognition – Principal versus agent, see note 1.11**

Under IFRS 15, Revenue from Contracts with Customers, when recognising revenue, the Group is required to assess whether its role in satisfying its various performance obligations is to provide the goods or services itself (in which case it is considered to be acting as principal) or arrange for a third party to provide the goods or services (in which case it is considered to be acting as agent). Where it is considered to be acting as principal, the Group recognises revenue at the gross amount of consideration to which it expects to be entitled. Where it is considered to be acting as agent, the Group recognises revenue at the amount of any fee or commission to which it expects to be entitled or the net amount of consideration that it retains after paying the other party.

To determine the nature of its obligation, the standard primarily requires that an entity shall:

- (a) Identify the specified goods or services to be provided to the customer

Notes to the financial statements continued

1.4 Critical accounting estimates and judgements continued

(b) Assess whether it controls each specified good or service before that good or service is transferred to the customer by considering if it:

- a. is primarily responsible for fulfilling the promise to provide the specified good or service
- b. has inventory risk before the specified good or service has been transferred to a customer
- c. has discretion in establishing the price for the specified good or service.

Judgement is therefore required as to whether the Group is a principal or agent against each specified good or service, noting that a balanced weighting of the above indicators may be required when making the assessment.

The specific judgements made for each revenue category are discussed in the accounting policy for revenue, note 1.11 and 1.6, as disclosed below.

(ii) Significant accounting estimates and uncertainties

There are no major sources of estimation uncertainty at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(iii) Other accounting estimates and uncertainties

The other areas involving accounting estimates as follows have been included in this review for the current year. Further, the effect of climate change has been considered to determine any critical judgements or adjustments required in the preparation of the Group's financial statements. During the current year, and within the next financial year, the impact, if any, is not expected to create any significant risks which result in a material misstatement to the financial statements occurring. However, the effects of climate change over the longer term are more uncertain and may be more significant.

- **Property, plant and equipment (see notes 1.21 and 9) and leases (see notes 1.15 and 10).**

The Group's net assets under these categories primarily comprise freehold land and buildings and leasehold buildings with much smaller net book values reported for computer equipment, furniture and fittings. IAS 16 Property, Plant and Equipment requires an item of property, plant and equipment (PPE) to be recognised if it is probable that future economic benefits associated with the item will flow to the entity and its cost can be measured reliably.

Consideration has been made as to whether climate-related matters may affect the value of any items of PPE, their economic life or residual value. As noted in the Task Force on Climate-related Financial Disclosures (TCFD) statement with the strategic report, none of the Group's items of PPE, the properties and the assets included within them, are deemed to be at risk or prone to damage from acute or chronic weather events which could arise as part of climate change. Also, none of the items of PPE is deemed susceptible to

being phased out, replaced or made redundant under any climate-related legislative changes.

Hence it is judged that there is no material risk from climate change to the carrying values of any items of PPE on the balance sheet at 28 February 2023.

- **Estimation of recoverable amount of goodwill (see notes 1.16 and 11).**

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1.16. The recoverable amounts of cash generating units (CGUs) have been determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on forecasts approved by management covering a five-year period. The growth rates used in the forecasts are based on historical growth rates achieved by the Group. Cash flows beyond the five-year period are extrapolated using the estimated growth rates disclosed in note 11. The forecast cash flows are discounted, at the rates disclosed in note 11, to determine the CGUs value-in-use. The sensitivity of changes in the estimated growth rates and the discount rate are disclosed in note 11.

- **Impairment of intangible assets (see notes 1.16, 1.22 and 11).**

The Group's net assets under this category comprise goodwill, customer relationships and brands, arising on acquisition of subsidiaries. Goodwill is not amortised but is tested for impairment at least annually at the level of the cash generating unit (CGU) to which it relates. Customer relationships and brands are recognised at fair value after deduction of accumulated amortisation over their useful lives. IAS 36 Impairment of Assets requires an entity to assess, at the end of each reporting period, whether there are any impairment indicators for an entity's assets. Impairment indicators include significant changes in the technological, market, economic or legal environment in which the entity operates.

Consideration has been made as to whether climate-related matters may affect any of these conditions which in turn may affect the economic performance of an asset or CGU, or its long-term growth rates. For example, customer buying behaviours, requirement to make significant investments in new technologies, or an increase in costs generally charged by suppliers. Further, climate change indirectly resulting in an increase in market interest rates is likely to affect the discount rate used in calculating an asset's or CGU's value in use. This, in turn, could decrease the asset's or CGU's recoverable amount by reducing the present value of the future cash flows and result in a lower value in use.

However, as noted in the TCFD statement with the strategic report, the Group continually monitors the regulatory and legal environment and takes external advice as required. It expects the impact from changing customer behaviours to be small given the Group's primary business is the supply of critical cloud, security and software products and IT services. Further, the Group does not rely on overseas operations, or require

colleagues to work on-site at all times. Nor does it need to have physical products transported to maintain the economic performance of its CGUs.

Hence it is judged that there is no material risk from climate change to the carrying values of any intangible assets on the balance sheet at 28 February 2023.

- **Provisions (see note 1.25)**

IAS 37 Provisions, Contingent Liabilities and Contingent Assets requires a provision to be recognised when an entity has a present obligation (legal or constructive) because of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the obligation. If any of the conditions for recognition are not met, no provision is recognised, and an entity may instead have a contingent liability. Contingent liabilities are not recognised, but explanatory disclosures are required, unless the possibility of an outflow in settlement is remote. In the case of an onerous contract, the provision reflects the lower of the costs of fulfilling the contract and any compensation or penalties from a failure to fulfil it.

Consideration has been made as to whether climate-related matters may result in the recognition of new liabilities or, where the criteria for recognition are not met, new contingent liabilities may have to be disclosed. Further consideration has been made as to whether climate change, and any resulting associated legislation, may require past judgements to be reconsidered.

The Group has judged that there is no material risk from climate change which requires new provisions to be made or existing provisions to be reconsidered at 28 February 2023.

The Group will continue to review and assess potential climate change impacts when making judgements in relation to its accounting for assets and liabilities or for its future earnings and cash flows. However, for the financial statements for the year ended 28 February 2023, the Group believes there is no material impact or risk of misstatement.

1.5 New standards, interpretations and amendments adopted by the Group

(a) New and amended standards adopted by the Group

There are no new standards applied for the first time in the annual reporting period commencing 1 March 2022.

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 28 February 2023 reporting periods and have not been adopted early by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

1.6 Changes in accounting policy and disclosures

The following change in accounting policy is effective in the year to 28 February 2023. Other than the one mentioned below, there are no further changes to accounting policies applicable in the period.

Change in accounting policy – IFRS 15

During the year, the IFRS Interpretation Committee (the 'Committee') concluded on a response to a request to clarify whether a company should recognise revenue from the resale of standard software licences on a gross or net basis under IFRS 15, Revenue from Contracts with Customers ('IFRS 15'). The fact pattern provided to the Committee was very similar to that faced by the Group when transacting software sales with customers.

The Committee did not provide direct clarification on the topic, as they stated that the specifics of each case may vary and must be analysed in detail, and that the assessment of whether an entity is a principal or agent might require judgement, in particular when the specified good or service is intangible. The Committee concluded that the principles and requirements in IFRS 15 already provided an adequate basis for a reseller to determine whether it is a principal or agent for software licences provided to a customer based on the control criteria set out in the standard and summarised under our key accounting judgements policy, note 1.4 (iii), above.

However, following the Committee's conclusion, and in line with developing clear and consistent practice within its industry, the Group further considered the balance of the guidance around control indicators provided in IFRS 15.

In the previous year, the Group recognised revenue from indirect software licence sales relating to cloud-based licences and licences requiring critical updates on an agency, 'net', basis. This is because these do not meet the control criteria noted under IFRS 15 due to the primary responsibility for fulfilling the promise to provide these licences to the customer resting with the software vendor and requiring the vendors ongoing involvement.

All remaining indirect software licence sales, those which were non-cloud based and without critical updates, were treated on a 'gross' basis as a principal. However, this previous gross conclusion required significant judgement as these sales comprise elements which can also be indicative of a net treatment with the conclusion being dependent on an assessment of the relative weighting of the various factors. Whilst the Group does have discretion in establishing the price of the software previously treated on a gross basis, the other key control indicators highlighted in note 1.4 (ii) were not being satisfied. The Group is not exposed to any inventory risk, it is the vendor who has primary responsibility for fulfilling the promise to provide the licences to the customer, and the Group does not control the software licences prior to their transfer.

As a result of its reassessment of the above control indicators outlined under IFRS 15, the Group has amended its judgement and now concludes that an accounting policy change in favour of agent (and net) presentation should be adopted for all software sales that were previously recorded as principal and presented gross.

Notes to the financial statements continued

1.6 Changes in accounting policy and disclosures continued

In accordance with IAS 8, the Group has applied this accounting policy change retrospectively, so the prior year and current year are presented consistently.

The impact of this change in accounting policy on the prior year financial statements is set out below:

- Revenue and cost of sales decreased by £302 million, being the additional cost of transactions assessed as being recognised on an agency basis
- The consolidated statements of profit or loss, financial position, cash flows and of changes in equity remain unchanged in both years and there is no impact on basic and diluted earnings per share.

The prior year impact is summarised in the following table noting that the Group continues to report Gross Invoiced Income as an Alternative Performance Measure, and this is unaffected. The impact on the current year has not been quantified as it is impractical to do so.

	28 February 2022		
	Gross invoiced income £'000	Agency Adjustment £'000	Revenue £'000
Previous accounting policy	1,208,124	(760,187)	447,937
Revised accounting policy	1,208,124	(1,062,288)	145,836

1.7 Principles of consolidation**1.7.1 Subsidiaries**

Subsidiaries are all entities over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

1.8 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker who views the Group's operations on a combined level, given they sell similar products and services, and substantially purchase from the same suppliers and under common customer frameworks. The Group has therefore determined that it has only one reportable segment under IFRS 8, which is that of 'IT solutions provider'.

1.9 Finance income and costs

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprises interest expense on borrowings and the unwinding of the discount on lease liabilities, that are recognised in profit or loss as it accrues using the effective interest method.

1.10 Foreign currency translation**(i) Functional and presentation currency**

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates, are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

All foreign exchange gains and losses are presented in the statement of profit or loss on a net basis, within 'other gains/(losses)'.

1.11 Revenue recognition**Revenue recognition principles across all revenue streams**

The Group recognises revenue on completion of its performance obligations at the fixed transaction prices specified in the underlying contracts or orders. There are no variable price elements arising from discounts, targets, loyalty points or returns. Where the contract or order includes more than one performance obligation, the transaction price is allocated to each obligation based on their stand-alone selling prices. These are separately listed as individual items within the contract or order.

In the case of sales of third-party products and services, the Group's performance obligations are satisfied by fulfilling its contractual requirements with both the customer and the supplier (which may be direct with the product vendor), ensuring that orders are processed within any contractual timescales stipulated. In the case of sales of the Group's own in-house products and internal services, this includes the Group fulfilling its contractual responsibilities with the customer.

That primary areas of judgement for revenue recognition as principal versus agent are set out above under our key accounting judgements policy and described further below for each revenue category.

Software

The Group acts as an advisor, analysing customer requirements and designing an appropriate mix of software products under different licensing programs. This may include a combination of cloud and on-premise products, typically used to enhance users' productivity, strengthen IT security or assist in collaboration. The way in which the Group satisfies its performance obligations depends on the licensing program selected.

Direct software sales – the Group's performance obligation is to facilitate software sales between vendors and customers, but the Group is not party to those sales contracts. Supply and activation of the software licences, invoicing and payment all take place directly between the vendor and the customer. The transaction price for the customer is set by the vendor with no involvement from the Group. Therefore, the Group does not control the licences prior to their delivery to the customer and hence acts as agent. The Group is compensated by the vendor with a fee based on fixed rates set by the vendor applied to the customer transaction price and determined according to the quantity and type of products sold. Revenue is recognised as the fee received from the vendor on a point in time basis when the vendor's invoicing to the customer takes place.

Indirect software sales – the Group's performance obligation is to fulfil customers' requirements through the procurement of appropriate on-premise software products, or cloud-based software, from relevant vendors. Operating as a reseller, the Group invoices, and receives payment from, the customer itself. Whilst the transaction price is set by the Group at the amount specified in its contract with the customer, the software licensing agreement is between the vendor and the customer. The vendor is responsible for issuing the licences and activation keys, for the software's functionality, and for fulfilling the promise to provide the licences to the customer. Therefore, the Group acts as agent and revenue is recognised as the amount retained after paying the software vendor. As a reseller, the Group recognises indirect software sales revenue on a point-in-time basis once it has satisfied its performance obligations. This takes two main forms as follows:

In the case of cloud-based software sales, the Group arranges for third-party vendors to provide customers with access to software in the cloud. As the sales value varies according to monthly usage, revenue is recognised once the amount is confirmed by the vendor and the Group has analysed the data and advised the customer. This is because the responsibilities of the Group to undertake such activities mean that these performance obligations are satisfied at each point usage occurs and the Group has a right to receive payment.

In the case of licence sales (non cloud-based software) arising from fixed-price subscriptions where the customer makes an up-front payment, the Group recognises revenue when the contract execution or order is fulfilled by the Group because its performance obligation is fully satisfied at that point. Typically, these take the form of annual instalments where the Group is required to undertake various contract review activities at each anniversary date.

Hardware – resale of hardware products

The Group's activities under this revenue stream comprise the sale of hardware items such as servers, laptops and devices. For hardware sales, the Group acts as principal, as it assumes primary responsibility for fulfilling the promise to provide the goods and for their acceptability, is exposed to inventory risk during the delivery period and has discretion in establishing the selling price.

Revenue is recognised at the gross amount receivable from the customer for the hardware provided and on a point-in-time basis when delivered to the customer.

Services internal – provision of services to customers using the Group's own internal resources

The Group's activities under this revenue stream comprise the provision of consulting services using its own internal resources. The services provided include, but are not limited to, helpdesk support, cloud migration, implementation of security solutions, infrastructure, and software asset management services. The services may be one-off projects where completion is determined on delivery of contractually agreed tasks, or they may constitute an ongoing set of deliverables over a contract term which may be multi-year.

When selling internally provided services, the Group acts as principal as there are no other parties involved in the process. Revenue is recognised at the gross amount receivable from the customer for the services provided. The Group recognises revenue from internally provided consulting services on an over-time basis. This is because the customer benefits from the Group's activities as the Group performs them. For service projects extending over more than one month the Group applies an inputs basis by reference to the hours expended to the measurement date, and the day rates specified in the contract. For managed services and support contracts the revenue is recognised evenly over the contract term.

Services external – provision of services to customers using third-party contractors

The Group's activities under this revenue stream comprise the sale of a variety of IT services which are provided by third-party contractors. These may be similar to the internally provided consulting services, where the Group does not have the internal capacity at the time required by the customer or may be services around different IT technologies and solutions where the Group does not have the relevant skills in-house.

Whilst the transaction price is set by the Group at the amount specified in its contract with the customer, when selling externally provided services, the Group acts as agent because responsibility for delivering the service relies on the performance of the third-party contractor. If the customer is not satisfied with their performance, the third party will assume responsibility for making good the service and obtaining customer sign-off. The Group will not pay the third party until customer sign-off has been received. Revenue is recognised at the amount retained after paying the service provider for the services delivered to the customer on a point-in-time basis. The Group does not control the services prior to their delivery and its performance obligations are satisfied at the point the service has been delivered by the third party and confirmed with the customer.

Notes to the financial statements continued

1.12 Contract costs, assets and liabilities*Contract costs***Incremental costs of obtaining a contract**

The Group recognises the incremental costs of obtaining a contract when those costs are incurred. For revenue recognised on a point-in-time basis, this is consistent with the transfer of the goods or services to which those costs relate. For revenue recognised on an over-time basis, the Group applies the practical expedient available in IFRS 15 and recognises the costs as an expense when incurred because the amortisation period of the asset that would otherwise be recognised is less than one year.

Costs to fulfil a contract

The Group recognises the costs of fulfilling a contract when those costs are incurred. This is because the nature of those costs does not generate or enhance the Group's resources in a way that enables it to satisfy its performance obligations in the future and those costs do not otherwise qualify for recognition as an asset.

Contract assets

The Group recognises a contract asset for accrued revenue. Accrued revenue is revenue recognised from performance obligations satisfied in the period that has not yet been invoiced to the customer.

Contract assets also include costs to fulfill services contracts (deferred costs) when the Group is invoiced by suppliers before the related performance obligations of the contract are satisfied by the third party. Deferred costs are measured at the purchase price of the associated services received. Deferred costs are released from the consolidated statement of financial position in line with the recognition of revenue on the specific transaction.

Contract liabilities

The Group recognises a contract liability for deferred revenue when the customer is invoiced before the related performance obligations of the contract are satisfied. A contract liability is also recognised for payments received in advance from customers. Contract liabilities are recognised as revenue when the Group performs its obligations under the contract to which they relate.

1.13 Rebates

Rebates from suppliers are accounted for in the period in which they are earned and are based on commercial agreements with suppliers. Rebates earned are mainly determined by the type and quantity of products within each sale but may also be volume-purchase related. They are generally short-term in nature, with rebates earned but not yet received typically relating to the preceding month's or quarter's trading. Rebate income is recognised in cost of sales in the consolidated statement of profit or loss and rebates earned but not yet received are included within trade and other receivables in the consolidated statement of financial position.

1.14 Income tax

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

The current income tax charge is calculated based on the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, based on amounts expected to be paid to the tax authorities.

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 consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also 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 or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period 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 only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

1.15 Leases

Lessee

The Group leases a property and various motor vehicles. Lease agreements are typically made for fixed periods but may have extension options included. Lease terms are negotiated on an individual basis and contain different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The Group is depreciating the right-of-use assets over the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured at the net present value of the minimum lease payments. The net present value of the minimum lease payments is calculated as follows:

- Fixed payments, less any lease incentives receivable
- Variable lease payments that are based on an index or a rate
- Amounts expected to be payable by the lessee under residual value guarantees
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease; where this rate cannot be determined, the Group's incremental borrowing rate is used.

Right-of-use assets are measured at cost comprising the following:

- The net present value of the minimum lease payments
- Any lease payments made at, or before, the commencement date less any lease incentives received
- Any initial direct costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

Depreciation

Depreciation is recognised in profit or loss for each category of assets on a straight-line basis over the lease term.

The estimated useful lives for the current and comparative periods are as follows:

- Buildings, 8 years
- Motor vehicles, 2 to 3 years.

The depreciation methods, useful lives and residual values are reassessed annually and adjusted if appropriate. Gains and losses arising on the disposal of leased assets are included as capital items in profit or loss.

1.16 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount might 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 of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

1.17 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

1.18 Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services rendered in the ordinary course of business. Trade receivables are recognised initially at the amount of consideration that is unconditional, i.e. fair value and subsequently measured at amortised cost using the effective interest method, less loss allowance. Prepayments and other receivables are stated at their nominal values.

1.19 Inventories

Inventories are measured at the lower of cost and net realisable value considering market conditions and technological changes. Cost is determined on the first-in first-out and weighted average cost methods. Work and contracts in progress and finished goods include direct costs and an appropriate portion of attributable overhead expenditure based on normal production capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Notes to the financial statements continued

1.20 Financial instruments

Financial instruments comprise investments in equity, loans receivable, trade and other receivables (excluding prepayments), investments, cash and cash equivalents, restricted cash, non-current loans, current loans, bank overdrafts, derivatives and trade and other payables.

Recognition

Financial assets and liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instruments. Financial assets are recognised on the date the Group commits to purchase the instruments (trade date accounting).

Financial assets are classified as current if expected to be realised or settled within 12 months from the reporting date; if not, they are classified as non-current. Financial liabilities are classified as non-current if the Group has an unconditional right to defer payment for more than 12 months from the reporting date.

Classification

The Group classifies financial assets on initial recognition as measured at amortised cost, fair value through other comprehensive income (FVOCI), or fair value through profit or loss (FVTPL) based on the Group's business model for managing the financial asset and the cash flow characteristics of the financial asset.

Financial assets are classified as follows:

- Financial assets to be measured subsequently at fair value (either through other comprehensive income (OCI) or through profit or loss)
- Financial assets to be measured at amortised cost.

Financial assets are not reclassified unless the Group changes its business model. In rare circumstances where the Group does change its business model, reclassifications are done prospectively from the date that the Group changes its business model.

Financial liabilities are classified and measured at amortised cost except for those derivative liabilities and contingent considerations that are measured at FVTPL.

Measurement on initial recognition

All financial assets and financial liabilities are initially measured at fair value, including transaction costs, except for those classified as FVTPL which are initially measured at fair value excluding transaction costs. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Subsequent measurement: financial assets

Subsequent to initial recognition, financial assets are measured as described below:

- **FVTPL** – these financial assets are subsequently measured at fair value and changes therein (including any interest or dividend income) are recognised in profit or loss

- **Amortised cost** – these financial assets are subsequently measured at amortised cost using the effective interest method, less impairment losses. Interest income, foreign exchange gains and losses and impairments are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss
- **Equity instruments at FVOCI** – these financial assets are subsequently measured at fair value. Dividends are recognised in profit or loss when the right to receive payment is established. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are not reclassified to profit or loss.

Subsequent measurement: financial liabilities

All financial liabilities, excluding derivative liabilities and contingent consideration, are subsequently measured at amortised cost using the effective interest method. Derivative liabilities are subsequently measured at fair value with changes therein recognised in profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligations specified in the contracts are discharged, cancelled or expire. On derecognition of a financial asset or liability, any difference between the carrying amount extinguished and the consideration paid is recognised in profit or loss.

Offsetting financial instruments

Offsetting of financial assets and liabilities is applied when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The net amount is reported in the statement of financial position.

Impairment

The Group 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 credit risk characteristics and the days past due.

The expected credit loss (ECL) rates are based on the payment profiles of sales over a 12-month period before 28 February 2023, 28 February 2022 and 1 March 2021 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are reviewed and adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Trade receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 120 days past due.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Derivatives

Derivatives are initially recognised at fair value on the date that a derivative contract is entered into as either a financial asset or financial liability if they are considered material. Derivatives are subsequently remeasured to their fair value at the end of each reporting period, with the change in fair value being recognised in profit or loss.

1.21 Property, plant and equipment

Owned assets

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses. When components of an item of property, plant and equipment have different useful lives, those components are accounted for as separate items of property, plant and equipment.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when the cost is incurred, if it is probable that future economic benefits embodied within the item will flow to the Group and the cost of such item can be measured reliably. The carrying amount of the replaced item of property, plant and equipment is derecognised. All other costs are recognised in profit or loss as an expense when incurred.

Depreciation

Depreciation is recognised in profit or loss for each category of assets on a straight-line basis over their expected useful lives up to their respective estimated residual values. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- Buildings, 20 to 50 years
- Leasehold improvements (included in land and buildings), shorter of lease period or useful life of asset
- Plant and machinery, 3 to 20 years
- Motor vehicles, 4 to 8 years
- Furniture and equipment, 5 to 20 years
- IT equipment and software, 2 to 8 years.

The depreciation methods, useful lives and residual values are reassessed annually and adjusted if appropriate. Gains and losses arising on the disposal of property, plant and equipment are included as capital items in profit or loss.

1.22 Intangible assets

Goodwill

Goodwill is measured as described in note 1.16. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised, but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes.

Brands and customer relationships

Brands and customer relationships acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses.

The useful lives for the brands and customer relationships are as follows:

- Customer relationships, 10 years
- Brands, 5 years.

Software

Costs associated with maintaining software programs are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets where the following criteria are met:

- It is technically feasible to complete the software so that it will be available for use
- Management intends to complete the software and use or sell it
- There is an ability to use or sell the software
- It can be demonstrated how the software will generate probable future economic benefits
- Adequate technical, financial and other resources to complete the development and to use or sell the software are available
- The expenditure attributable to the software during its development can be reliably measured.

Research and development

Research expenditure and development expenditure that do not meet the criteria above are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Notes to the financial statements continued

1.23 Trade and other payables

Trade payables, sundry creditors and accrued expenses are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are accounted for in accordance with the accounting policy for financial liabilities as included above. Amounts received from customers in advance, prior to confirming the goods or services required, are recorded as other payables. Upon delivery of the goods and services, these amounts are recognised in revenue. Other payables are stated at their nominal values.

1.24 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount, is recognised in profit or loss over the period of the borrowings using the effective-interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

1.25 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation because of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and where a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

1.26 Employee benefits*Short-term obligations*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave, that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

Post-employment obligations

The Group operates various defined contribution plans for its employees. Once the contributions have been paid, the Group has no further payment obligations. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the Group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

*Share-based payments**Equity settled share-based payment incentive scheme*

Share-based compensation benefits are provided to particular employees of the Group through the Bytes Technology Group plc share option plans. Information relating to all schemes is provided in note 28.

Employee options

The fair values of options granted under the Bytes Technology Group plc share option plans are recognised as an employee benefit expense, with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted.

The total expense is recognised over the vesting period, which is the period over which all the specified vesting conditions are to be satisfied. At the end of each period, the Group revises its estimates of the number of options issued that are expected to vest based on the service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

1.27 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

1.28 Dividends

Dividends paid on ordinary shares are classified as equity and are recognised as distributions in equity.

1.29 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- The profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares
- By the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to consider:

- The after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares
- The weighted average number of additional ordinary shares that would have been outstanding, assuming the conversion of all dilutive potential ordinary shares.

1.30 Rounding of amounts

All amounts disclosed in the consolidated financial statements and notes have been rounded off to the nearest thousand, unless otherwise stated.

2 Segmental information

2(a) Description of segment

The information reported to the Group's Chief Executive Officer, who is considered to be the chief operating decision maker for the purposes of resource allocation and assessment of performance, is based wholly on the overall activities of the Group. The Group has therefore determined that it has only one reportable segment under IFRS 8, which is that of 'IT solutions provider'. The Group's revenue, results, assets and liabilities for this one reportable segment can be determined by reference to the consolidated statement of profit or loss and the consolidated statement of financial position. An analysis of revenues by product lines and geographical regions, which form one reportable segment, is set out in note 3.

2(b) Adjusted operating profit

Adjusted operating profit is an alternative performance measure which excludes the effects of intangible assets amortisation and share-based payment charges.

Adjusted operating profit reconciles to operating profit as follows:

	Note	Year ended 28 February 2023 £'000	Year ended 28 February 2022 £'000
Adjusted operating profit		56,377	46,329
Share-based payment charges	28	(4,188)	(2,563)
Amortisation of acquired intangible assets	4	(1,306)	(1,611)
Operating profit		50,883	42,155

Notes to the financial statements continued

3 Revenue from contracts with customers**3(a) Disaggregation of revenue from contracts with customers**

The Group derives revenue from the transfer of goods and services in the following major product lines and geographical regions:

Revenue by product ¹	Year ended 28 February 2023 £'000	Year ended 28 February 2022 (Restated) £'000
Software	114,108	91,663
Hardware	38,355	28,807
Services internal	28,454	21,761
Services external	3,504	3,605
Total revenue from contracts with customers	184,421	145,836

1 Revenue from contracts with customers have been restated as noted in note 1.6 above. This arises from all software sales being classified as agent and presented on a 'net' basis, thereby reducing Software revenue from £393.8 million to £91.7 million.

Software

The Group's software revenue comprises the sale of various types of software licences (including both cloud-based and non-cloud-based licences), subscriptions and software assurance products.

Hardware

The Group's hardware revenue comprises the sale of items such as servers, laptops and other devices.

Services internal

The Group's internal services revenue comprises internally provided consulting services through its own internal resources.

Services external

The Group's external services revenue comprises the sale of externally provided training and consulting services through third-party contractors.

Revenue by geographical regions	Year ended 28 February 2023 £'000	Year ended 28 February 2022 (Restated) £'000
United Kingdom	177,882	140,382
Europe	4,358	4,235
Rest of world	2,181	1,219
	184,421	145,836

3(b) Gross invoiced income by type

	Year ended 28 February 2023 £'000	Year ended 28 February 2022 (Restated) £'000
Software	1,346,110	1,136,039
Hardware	38,355	28,807
Services internal	28,454	21,761
Services external	26,395	21,517
	1,439,314	1,208,124
Gross invoiced income	1,439,314	1,208,124¹
Adjustment to gross invoiced income for income recognised as agent	(1,254,893)	(1,062,288)
Revenue	184,421	145,836

1 The adjustment to gross invoiced income for income recognised as an agent has been restated, refer note 1.6 above.

Gross invoiced income reflects gross income billed to customers adjusted for deferred and accrued revenue items amounting to £5.5 million (2022: £4.3 million). The Group reports gross invoiced income as an alternative financial KPI as management believes this measure allows further understanding of business performance and position particularly in respect of working capital and cash flow.

4 Material profit or loss items

The Group has identified several items included within administrative expenses which are material due to the significance of their nature and/or amount. These are listed separately here to provide a better understanding of the financial performance of the Group:

	Note	Year ended 28 February 2023 £'000	Year ended 28 February 2022 £'000
Depreciation of property, plant and equipment	9	1,029	828
Depreciation of right-of-use assets	10	145	169
Loss on disposal of property, plant and equipment		3	15
Amortisation of acquired intangible assets	11	1,306	1,611
System support and maintenance		2,991	2,215
Share-based payment expenses	28	4,188	2,563
Operating lease charges – Property	10	25	16
Foreign exchange (gains)/losses		(32)	(38)

5 Employees

	Note	Year ended 28 February 2023 £'000	Year ended 28 February 2022 £'000
Employee benefit expense:			
Employee remuneration (including directors' remuneration ¹)		40,725	34,027
Commissions and bonuses		22,299	18,552
Social security costs		8,158	6,437
Pension costs		1,413	1,169
Share-based payments expense	28	4,188	2,563
		76,783	62,748
Classified as follows:			
Cost of sales		13,527	9,282
Administrative expenses		63,256	53,466
		76,783	62,748

1 Directors' remuneration is included in the directors' remuneration report on pages 100 to 111.

	Year ended 28 February 2023 Number	Year ended 28 February 2022 Number
The average monthly number of employees during the year was:		
Sales – account management	285	228
Sales – support and specialists	199	209
Service delivery	204	146
Administration	173	141
	861	724

Employee numbers has been reclassified this year to split sales support and specialists from service delivery. We believe this provides a more useful presentation of how the Group's employees are deployed. The employee benefit expenses in relation to the service delivery employees are included within cost of sales.

Notes to the financial statements continued

6 Auditors' remuneration

During the year, the Group obtained the following services from the company's auditors and its associates:

	Year ended 28 February 2023 £'000	Year ended 28 February 2022 £'000
Fees payable to the company's auditors and its associates for the audit of the parent company and consolidated financial statements	281	198
Fees payable to the company's auditors and its associates for other services		
Audit of the financial statements of the company's subsidiaries	372	317
Other audit fees	14	–
Non-audit services ¹	95	75
	762	590

1 Non-audit services in the current and prior year relate to the auditors' review of our interim report issued in October 2022 (October 2021).

7 Finance costs

	Year ended 28 February 2023 £'000	Year ended 28 February 2022 £'000
Finance costs		
Interest expense on financial liabilities measured at amortised cost	(443)	(532)
Interest expense on lease liability	(48)	(57)
Finance costs	(491)	(589)

8 Income tax expense

The major components of the Group's income tax expense for all periods are:

	Year ended 28 February 2023 £'000	Year ended 28 February 2022 £'000
Current income tax charge in the year	10,483	8,561
Adjustment in respect of current income tax of previous years	66	150
Foreign taxation	–	1
Total current income tax charge	10,549	8,712
Current year	(402)	(434)
Adjustments in respect of prior year	(75)	5
Effect of changes in tax rates	(101)	429
Deferred tax credit	(578)	–
Total tax charge	9,971	8,712

Reconciliation of total tax charge

The tax assessed for the year differs from the standard rate of corporation tax in the UK applied to profit before tax:

	Year ended 28 February 2023 £'000	Year ended 28 February 2022 £'000
Profit before income tax	50,392	41,566
Income tax charge at the standard rate of corporation tax in the UK of 19% for all periods	9,574	7,898
Effects of:		
Non-deductible expenses	507	229
Foreign tax credits	–	1
Adjustment to previous periods	(9)	155
Effect of changes in tax rate	(101)	429
Income tax charge reported in profit or loss	9,971	8,712

Amounts recognised directly in equity

	Year ended 28 February 2023 £'000	Year ended 28 February 2022 £'000
Aggregate deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly credited to equity:		
Deferred tax: share-based payments	(24)	192
	(24)	192

Changes affecting the future tax charge

Effective from 1 April 2023 the UK corporate tax rate increases to 25%, this change has been used to rebase the deferred tax liability in both the current and prior year.

	As at 28 February 2023 £'000	As at 28 February 2022 £'000
Deferred tax liabilities		
The balance comprises temporary differences attributable to:		
Intangible assets	(1,008)	(1,309)
Property, plant and equipment	(884)	(769)
Employee benefits	3	145
Provisions	65	53
Share-based payments	1,189	691
	(635)	(1,189)
	As at 28 February 2023 £'000	As at 28 February 2022 £'000
Deferred tax liabilities		
At 1 March	(1,189)	(1,381)
Credited to profit or loss	578	–
(Charge)/credited to equity	(24)	192
Carrying amount at end of year	(635)	(1,189)

The deferred tax asset and deferred tax liabilities carrying amounts at the end of the year are set-off as they arise in the same jurisdiction and as such there is a legally enforceable right to offset.

Notes to the financial statements continued

9 Property, plant and equipment

	Freehold land and buildings £'000	Computer equipment £'000	Furniture, fittings and equipment £'000	Computer software £'000	Motor vehicles £'000	Total £'000
Cost						
At 1 March 2021	8,880	3,666	1,303	624	89	14,562
Additions	41	435	2	122	17	617
Disposals	–	(226)	–	–	(5)	(231)
At 28 February 2022	8,921	3,875	1,305	746	101	14,948
Additions	484	590	8	271	10	1,363
Disposals	–	(126)	–	–	(7)	(133)
At 28 February 2023	9,405	4,339	1,313	1,017	104	16,178
Depreciation						
At 1 March 2021	1,791	2,943	913	601	39	6,287
On disposals	–	(213)	–	–	(3)	(216)
Charge for the year	352	353	76	25	22	828
At 28 February 2022	2,143	3,083	989	626	58	6,899
On disposals	–	(122)	–	–	(8)	(130)
Charge for the year	373	508	54	72	22	1,029
At 28 February 2023	2,516	3,469	1,043	698	72	7,798
Net book value						
At 28 February 2022	6,778	792	316	120	43	8,049
At 28 February 2023	6,889	870	270	319	32	8,380

10 Leases

(i) Amounts recognised in the balance sheet

	Buildings £'000	Motor vehicles £'000	Total £'000
Right-of-use assets			
Cost			
At 1 March 2021	1,377	245	1,622
At 28 February 2022 and 28 February 2023	1,377	245	1,622
Depreciation			
At 1 March 2021	304	221	525
Charge for the year	145	24	169
At 28 February 2022	449	245	694
Charge for the period	145	–	145
At 28 February 2023	594	245	839
Net book value			
At 1 March 2021	1,073	24	1,097
At 28 February 2022	928	–	928
At 28 February 2023	783	–	783

	As at 28 February 2023 £'000	As at 28 February 2022 £'000	As at 1 March 2021 £'000
Lease liabilities			
Current	75	185	202
Non-current	917	992	1,176
	992	1,177	1,378

There were no additions to the right-of-use assets in the financial year ended 28 February 2023 (financial year ended 28 February 2022: £Nil).

(ii) *Amounts recognised in the statement of profit or loss*

The statement of profit or loss shows the following amounts relating to leases:

	Year ended 28 February 2023 £'000	Year ended 28 February 2022 £'000
Depreciation charge of right-of-use assets		
Buildings	145	145
Motor vehicles	–	24
	145	169
Interest expense (included in finance cost)	48	57
Expense relating to short-term leases (included in administrative expenses)	25	16

(iii) *Changes in liabilities arising from financing activities*

	As at 1 March 2022 £'000	Cash flows £'000	Interest £'000	As at 28 February 2023 £'000
Lease liabilities	1,177	(233)	48	992
Total liabilities from financing activities	1,177	(233)	48	992
	1 March 2021 £'000	Cash flows £'000	Interest £'000	28 February 2022 £'000
Lease liabilities	1,378	(258)	57	1,177
Total liabilities from financing activities	1,378	(258)	57	1,177

11 Intangible assets

	Goodwill £'000	Customer relationships £'000	Brand £'000	Total £'000
Cost				
At 1 March 2021, 28 February 2022 and 28 February 2023	37,493	8,798	3,653	49,944
Amortisation				
At 1 March 2021	–	3,007	2,494	5,501
Charge for the year	–	880	731	1,611
At 28 February 2022	–	3,887	3,225	7,112
Charge for the year	–	878	428	1,306
At 28 February 2023	–	4,765	3,653	8,418
Net book value				
At 28 February 2022	37,493	4,911	428	42,832
At 28 February 2023	37,493	4,033	–	41,526

Notes to the financial statements continued

11 Intangible assets continued**Determination of recoverable amount**

The carrying value of indefinite useful life intangible assets and goodwill are tested annually for impairment. For each CGU and for all periods presented, the Group has assessed that the value in use represents the recoverable amount. The future expected cash flows used in the value-in-use models are based on management forecasts, over a five-year period, and thereafter a reasonable rate of growth is applied based on current market conditions. The recoverable amount of Bytes Software Services and Phoenix Software is £720.1 million and £261.6 million respectively. For the purpose of impairment assessments of goodwill, the goodwill balance is allocated to the operating units which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

A summary of the goodwill per CGU, as well as assumptions applied for impairment assessment purposes, is presented below:

28 February 2023	Long-term growth rate %	Discount rate %	Goodwill carrying amount £'000
Bytes Software Services	2	9.10	14,775
Phoenix Software	2	9.10	22,718
			37,493

28 February 2022	Long-term growth rate %	Discount rate %	Goodwill carrying amount £'000
Bytes Software Services	2	8.54	14,775
Phoenix Software	2	8.54	22,718
			37,493

Growth rates

The Group used a conservative growth rate of 2% which was applied beyond the approved budget periods. The growth rate was consistent with publicly available information relating to long-term average growth rates for the market in which the respective CGU operated.

Discount rates

Discount rates used reflect both time value of money and other specific risks relating to the relevant CGU. Pre-tax discount rates have been applied.

Sensitivities

The impacts of variations in the calculation of value-in-use of assumed growth rate and pre-tax discount rates applied to the estimated future cash flows of the CGUs have been estimated as follows:

28 February 2023	Bytes Software Services £'000	Phoenix Software £'000
Headroom	675,427	229,245
1% increase in the pre-tax discount rate applied to the estimated future cash flows	(94,815)	(32,956)
1% decrease in the pre-tax discount rate applied to the estimated future cash flows	126,339	43,885
0.5% increase in the terminal growth rate from 2024 to 2028	45,179	15,660
0.5% decrease in the terminal growth rate from 2024 to 2028	(39,234)	(13,599)

28 February 2022	Bytes Software Services £'000	Phoenix Software £'000
Headroom	738,557	240,596
1% increase in the pre-tax discount rate applied to the estimated future cash flows	(104,467)	(36,204)
1% decrease in the pre-tax discount rate applied to the estimated future cash flows	142,534	49,408
0.5% increase in the terminal growth rate from 2023 to 2027	51,412	17,836
0.5% decrease in the terminal growth rate from 2023 to 2027	(44,109)	(15,302)

None of the above sensitivities, taken either in isolation or aggregated, indicates a potential impairment. The directors consider that there is no reasonable possible change in the assumptions used in the sensitivities that would result in an impairment of goodwill.

12 Contract assets

	As at 28 February 2023 £'000	As at 28 February 2022 £'000
Contract assets	11,081	6,716
Contract assets is further broken down as:		
Short-term contract assets	10,684	6,591
Long-term contract assets	397	125
	11,081	6,716

Contract assets include £3.8 million (2022: £2.1 million) of deferred costs relating to internal services contracts, and the recognition of accrued revenue of £7.3 million (2022: £4.6 million) for certain large software orders where performance obligations were satisfied in the period but not yet invoiced to the customer at the period end.

13 Contract liabilities

	As at 28 February 2023 £'000	As at 28 February 2022 £'000
Contract liabilities	25,890	16,023
Contract liabilities is further broken down as:		
Short-term contract liabilities	23,914	14,528
Long-term contract liabilities	1,976	1,495
	25,890	16,023

During the year, the Group recognised £14.5 million (2022: £10.0 million) of revenue that was included in the contract liability balance at the beginning of the period. The increase in contract liabilities reflects the rise in internal services business where revenue has been deferred when the customer is invoiced before the related performance obligations of the contract are satisfied, and the deferral of certain large payments received in advance from customers.

14 Inventories

	As at 28 February 2023 £'000	As at 28 February 2022 £'000
Inventories	58	96
	58	96

Inventories include asset management subscription licences purchased in advance for a specific customer that as yet haven't been consumed.

Inventories recognised as an expense in cost of sales during the year amounted to £38,000 (28 February 2022: £495,000).

Notes to the financial statements continued

15 Financial assets and financial liabilities

This note provides information about the Group's financial instruments, including:

- An overview of all financial instruments held by the Group
- Specific information about each type of financial instrument
- Accounting policies
- Information about determining the fair value of the instruments, including judgements and estimation uncertainty involved.

The Group holds the following financial instruments:

Financial assets	Note	As at 28 February 2023 £'000	As at 28 February 2022 £'000
Financial assets at amortised cost:			
Trade receivables	16	178,386	154,928
Other financial assets	16	5,896	1,501
		184,282	156,429
Financial liabilities			
	Note	As at 28 February 2023 £'000	As at 28 February 2022 £'000
Financial liabilities at amortised cost:			
Trade and other payables – current, excluding Payroll tax and other statutory tax liabilities	18	217,253	208,183
Lease liabilities	10	992	1,177
		218,245	209,360

The Group's exposure to various risks associated with the financial instruments is discussed in note 24. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

16 Trade and other receivables

	As at 28 February 2023 £'000	As at 28 February 2022 £'000
Financial assets		
Gross trade receivables	179,928	155,678
Less: impairment allowance	(1,542)	(750)
Net trade receivables	178,386	154,928
Other receivables	5,896	1,501
	184,282	156,429
Non-financial assets		
Prepayments	1,638	1,181
	1,638	1,181
Trade and other receivables	185,920	157,610

(i) Classification of trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and are therefore all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components, in which case they are recognised at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows, and so it measures them subsequently at amortised cost using the effective interest method. Details about the Group's impairment policies are provided in note 1.20.

(ii) Fair values of trade receivables

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

*(iii) Credit risk***Ageing and impairment analysis (excluding finance lease assets)**

28 February 2022	Current £'000	Past due 0 to 30 days £'000	Past due 31 to 60 days £'000	Past due 61 to 120 days £'000	Past due 121 to 365 days £'000	Total £'000
Expected loss rate	0.06%	0.56%	6.67%	20.25%	100%	
Gross carrying amount – trade receivables	133,031	16,968	5,027	514	138	155,678
Loss allowance	78	95	335	104	138	750

28 February 2023	Current £'000	Past due 0 to 30 days £'000	Past due 31 to 60 days £'000	Past due 61 to 120 days £'000	Past due 121 to 365 days £'000	Total £'000
Expected loss rate	0.09%	0.55%	6.39%	16.34%	92.68%	
Gross carrying amount – trade receivables	145,832	25,343	6,760	1,310	683	179,928
Loss allowance	124	139	432	214	633	1,542

The closing loss allowances for trade receivables reconcile to the opening loss allowances as follows:

Trade receivables	As at 28 February 2023 £'000	As at 28 February 2022 £'000
Opening loss allowance at 1 March	750	724
Increase in loss allowance recognised in profit or loss during the period	937	149
Receivables written off during the year as uncollectable	(145)	(123)
Closing loss allowance	1,542	750

Trade receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 120 days past due.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

(iv) Other receivables

Other receivables include accrued rebate income.

17 Cash and cash equivalents

	As at 28 February 2023 £'000	As at 28 February 2022 £'000
Cash at bank and in hand	73,019	67,118
	73,019	67,118

Notes to the financial statements continued

18 Trade and other payables

	As at 28 February 2023 £'000	As at 28 February 2022 £'000
Trade and other payables	138,307	129,430
Accrued expenses	78,946	78,753
Payroll tax and other statutory liabilities	14,464	9,429
	231,717	217,612

Trade payables are unsecured and are usually paid within 45 days of recognition.

The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

19 Share capital and share premium

Authorised, allotted, called up and fully paid	Number of shares	Nominal value £'000	Share premium £'000	Total £'000
At 1 March 2021	239,482,333	2,395	633,636	636,031
Shares issued during the year ¹	–	–	–	–
At 28 February 2022 and 28 February 2023 ^{2,3}	239,482,333	2,395	633,636	636,031

1 Shares issued during the prior year
During the current and prior year no new ordinary shares were issued by the company.

2 Ordinary shares
Ordinary shares have a nominal value of £0.01. All ordinary shares in issue rank pari passu and carry the same voting rights and entitlement to receive dividends and other distributions declared or paid by the Group. The company does not have a limited amount of authorised share capital.

3 Share options
Information related to the company's share option schemes, including options issued during the financial year and options outstanding at the end of the reporting period is set out in note 28.

20 Share-based payment reserve

The following table shows the movements in these reserves during the year. All movements relate to the Group's share-based payment schemes, further details are provided in note 28.

	Note	Share-based payment reserve £'000
Balance at 1 March 2021		317
Share-based payment expenses	28	2,563
Deferred tax	8	192
At 28 February 2022		3,072
Share-based payment expenses	28	4,188
Deferred tax	8	(25)
At 28 February 2023		7,235

21 Merger reserve

	Year ended 28 February 2023 £'000	Year ended 28 February 2022 £'000
Balance at 1 March 2021, 28 February 2022 and 28 February 2023	(644,375)	(644,375)
	(644,375)	(644,375)

The merger reserve of £644.4 million arose in December 2019, on the date that the Group demerged from its previous parent company. This is an accounting reserve in equity representing the difference between the total nominal value of the issued share capital acquired in Bytes Technology Limited of £1.10 and the total consideration given of £644.4 million.

22 Retained earnings

		Year ended 28 February 2023 £'000	Year ended 28 February 2022 £'000
Movements in retained earnings were as follows:			
Balance at 1 March		52,839	24,775
Net profit for the period		40,421	32,854
Dividends	25(b)	(30,654)	(4,790)
		62,606	52,839

23 Cash generated from operations

		Year ended 28 February 2023 £'000	Year ended 28 February 2022 £'000
Profit before taxation		50,392	41,566
Adjustments for:			
Depreciation and amortisation		2,480	2,608
Loss on disposal of property, plant and equipment	4	3	15
Non-cash employee benefits expense – share-based payments	4	4,188	2,563
Finance costs	4	491	589
(Increase)/decrease in contract assets	7	(4,365)	677
Increase in trade and other receivables		(28,310)	(50,946)
Decrease in inventories		38	495
Increase in trade and other payables		14,105	60,491
Increase in contract liabilities		9,867	3,661
Cash generated from operations		48,889	61,719

24 Financial risk management

This note explains the Group's exposure to financial risks and how these risks could affect the Group's future financial performance. Current year consolidated profit or loss and statement of financial position information has been included where relevant to add further context.

Management monitors the liquidity and cash flow risk of the Group carefully. Cash flow is monitored by management on a regular basis and any working capital requirement is funded by cash resources or access to the revolving credit facility.

The main financial risks arising from the Group's activities are credit, liquidity and currency risks. The Group's policy in respect of credit risk is to require appropriate credit checks on potential customers before sales are made. The Group's approach to credit risk is disclosed in note 16.

The Group's policy in respect of liquidity risk is to maintain readily accessible bank deposit accounts to ensure that the company has sufficient funds for its operations. The cash deposits are held in a mixture of short-term deposits and current accounts which earn interest at a floating rate.

The Group's policy in respect of currency risk, which primarily exists as a result of foreign currency purchases, is to either sell in the currency of purchase, maintain sufficient cash reserves in the appropriate foreign currencies which can be used to meet foreign currency liabilities, or take out forward currency contracts to cover the exposure.

24(a) Derivatives

Derivatives are only used for economic hedging purposes and not speculative investments.

The Group has taken out forward currency contracts during the periods presented but has not recognised either a forward currency asset or liability at each period end as the fair value of the foreign currency forwards is considered to be immaterial to the consolidated financial statements due to the low volume and short-term nature of the contracts. Similarly, the amounts recognised in profit or loss in relation to derivatives were considered immaterial to disclose separately.

Notes to the financial statements continued

24 Financial risk management continued**24(b) Foreign exchange risk**

The Group's exposure to foreign currency risk at the end of the reporting period, was as follows:

	As at 28 February 2023			As at 28 February 2022		
	USD £'000	EUR £'000	NOK £'000	USD £'000	EUR £'000	NOK £'000
Trade receivables	13,529	1,900	–	5,375	1,423	–
Cash and cash equivalents	250	214	–	3,093	75	–
Trade payables	(15,286)	(1,981)	(221)	(15,243)	(2,078)	(97)
	(1,507)	133	(221)	(6,775)	(580)	(97)

The following table demonstrates the profit before tax sensitivity to a possible change in the currency exchange rates with GBP, all other variables held constant.

	As at 28 February 2023			As at 28 February 2022		
	GBP:USD £'000	GBP:EUR £'000	GBP:NOK £'000	GBP:USD £'000	GBP:EUR £'000	GBP:NOK £'000
5% increase in rate	72	(6)	11	323	28	5
5% decrease in rate	(79)	7	(12)	(357)	(31)	(5)

The aggregate net foreign exchange gains/losses recognised in profit or loss were:

	Year ended 28 February 2023 £'000	Year ended 28 February 2022 £'000
Total net foreign exchange gains/(losses) in profit or loss	32	38

24(c) Liquidity risk**(1) Cash management**

Prudent liquidity risk management implies maintaining sufficient cash to meet obligations when due. The Group generates positive cash flows from operating activities and these fund short-term working capital requirements. The Group aims to maintain significant cash reserves and none of its cash reserves is subject to restrictions. Access to cash is not restricted and all cash balances could be drawn on immediately if required. Management monitors the levels of cash deposits carefully and is comfortable that for normal operating requirements, no further external borrowings are currently required.

At 28 February 2023, the Group had cash and cash equivalents of £73.0 million, see note 17. Management monitors rolling forecasts of the Group's liquidity position (which comprises its cash and cash equivalents) on the basis of expected cash flows generated from the Group's operations. These forecasts are generally carried out at a local level in the operating companies of the Group in accordance with practice and limits set by the Group and take into account certain down-case scenarios.

(2) Revolving Credit Facility

On 17 May 2023 the Group entered into a new three-year committed Revolving Credit Facility (RCF) for £30 million, including an optional one-year extension to 17 May 2027, and a non-committed £20 million accordion to increase the availability of funding should it be required for future activity. The new facility replaced the previous RCF which was entered into in December 2020 and reduced to £30 million in December 2022. This was set to expire in December 2023 but was cancelled, without penalty, on 17 May 2023, on commencement of the new RCF. In December 2020, the Group incurred arrangement fees of £0.4 million representing 0.75% of the initial £50 million facility available at the time. The new facility has incurred an arrangement fee of £0.1 million, being 0.4% of the new funds available. The Group has so far not drawn down any amount on either the previous or new facility and to the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fees are capitalised as a prepayment and amortised over the initial three-year period of the facility. The facility also incurs a commitment fee and utilisation fee, both of which are payable quarterly in arrears. Under the terms of both the previous and new facilities, the Group is required to comply with the following financial covenants:

- Interest cover: EBITDA (earnings before interest, tax, depreciation and amortisation) to net finance charges for the past 12 months shall be greater than 4.0 times
- Leverage: net debt to EBITDA for the past 12 months must not exceed 2.5 times.

The Group has complied with these covenants throughout the reporting period. As at 28 February 2023, EBITDA to net finance charges was approximately 109 times (2022: 76 times). The Group has been in a net cash position as at 28 February 2023 and 28 February 2022 and has therefore complied with the Net debt to EBITDA covenant.

(3) Contractual maturity of financial liabilities

The following table details the Group's remaining contractual maturity for its financial liabilities based on undiscounted contractual payments:

28 February 2023	Note	Within 1 year £'000	1 to 2 years £'000	2 to 5 years £'000	Over 5 years £'000	Total contractual cash flows £'000	Carrying amount £'000
Trade and other payables	18	217,253	–	–	–	217,253	217,253
Lease liabilities	10	116	463	545	–	1,124	992
		217,369	463	545	–	218,377	218,245

28 February 2022	Note	Within 1 year £'000	1 to 2 years £'000	2 to 5 years £'000	Over 5 years £'000	Total contractual cash flows £'000	Carrying amount £'000
Trade and other payables	18	208,183	–	–	–	208,183	208,183
Lease liabilities	10	231	116	694	313	1,354	1,177
		208,414	116	694	313	209,537	209,360

25 Capital management

25(a) Risk management

For the purpose of the Group's capital management, capital includes issued capital, ordinary shares, share premium and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise shareholder value.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of shareholders. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. To ensure an appropriate return for shareholders' capital invested in the Group, management thoroughly evaluates all material revenue streams, relationships with key vendors and potential acquisitions and approves them by the Board, where applicable. The Group's dividend policy is based on the profitability of the business and underlying growth in earnings of the Group, as well as its capital requirements and cash flows. The Group's dividend policy is to distribute 40% of the Group's post-tax pre-exceptional earnings to shareholders in respect of each financial year. Subject to any cash requirements for ongoing investment, the Board will consider returning excess cash to shareholders over time.

25(b) Dividends

	2023		2022	
	Pence per share	£'000	Pence per share	£'000
Ordinary shares				
Interim dividend paid	2.40	5,748	2.00	4,790
Special dividend paid	6.20	14,848	–	–
Final dividend paid	4.20	10,058		
Total dividends attributable to ordinary shareholders	12.80	30,654	2.00	4,790

Dividends per share is calculated by dividing the dividend paid by the number of ordinary shares in issue. Dividends are paid out of available distributable reserves of the company.

The Board has proposed a final ordinary dividend of 5.1 pence and a special dividend of 7.5 pence per share for the year ended 28 February 2023 to be paid to shareholders on the register as at 21 July 2023. The aggregate of the proposed dividends expected to be paid on 4 August 2023 is £30.2 million. The proposed dividends per ordinary shares are subject to approval at the Annual General Meeting and are not recognised as a liability in the consolidated financial statements.

Notes to the financial statements continued

26 Capital commitments

At 28 February 2023, the Group had £Nil capital commitments (28 February 2022: £Nil).

27 Related-party transactions

In the ordinary course of business, the Group carries out transactions with related parties, as defined by IAS 24 Related Party Disclosures. Apart from those disclosed elsewhere in the consolidated financial statements, material transactions for the year are set out below:

27(a) Transactions with key management personnel

Key management personnel are defined as the directors (both executive and non-executive) of Bytes Technology Group plc, Bytes Software Services Limited and Phoenix Software Limited. Details of the compensation paid to the directors of Bytes Technology Group plc as well as their shareholdings in the Group are disclosed in the remuneration report.

Compensation of key management personnel of the Group

The remuneration of key management personnel, which consists of persons who have been deemed to be discharging managerial responsibilities, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

	Year ended 28 February 2023 £'000	Year ended 28 February 2022 £'000
Short-term employee benefits	4,158	3,598
Post-employment pension benefits	92	79
Total compensation paid to key management	4,250	3,677

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel including executive directors.

Key management personnel received a total of 565,782 share option awards (2022: 391,000) at a weighted average exercise price of £1.33 (2022: £4.91).

Share-based payment charges include £1,006,423 (2022: £512,908) in respect of key management personnel, refer to note 28 for details on the Group's share-based payment incentive schemes.

27(b) Subsidiaries

Interests in subsidiaries are set out in note 30.

27(c) Outstanding balances arising from sales/purchases of services

There were no outstanding balances at the end of each reporting period.

28 Share-based payments

The Group established new equity-settled share-based payment incentive schemes with effect from IPO. These share option awards have been accounted for as equity-settled share-based payments. The fair value of the awards granted is recognised as an expense over the vesting period. As noted in the prior year Annual Report one-third of the annual bonus for the financial year ended 28 February 2022 awarded to each of the Company's executive directors is deferred in shares for two years. This deferral has resulted in the granting of the awards under the Deferred Bonus Plan during the year.

Performance Incentive Share Plan

Options granted under the Performance Incentive Share Plan (PISP) are for shares in Bytes Technology Group plc. The exercise price of the options is a nominal amount of £0.01. Performance conditions attached to the awards granted in the current year are employee specific, in addition to which, options will only vest if certain employment conditions are met. The fair value of the share options is estimated at the grant date using a Monte Carlo option pricing model for the element with market conditions and Black Scholes option-pricing model for non-market conditions. The normal vesting date shall be no earlier than the third anniversary of the grant date and not later than the day before the tenth anniversary of the grant date. There is no cash settlement of the options available under the scheme. During the year the Group granted 552,480 (2022: nil) options. For the year ended 28 February 2023, 30,589 (2022: 45,153) options were forfeited, and no options were exercised or expired.

Company Share Option Plan

Options granted under the Company Share Option Plan (CSOP) are for shares in Bytes Technology Group plc. The exercise price of the options granted in the current year was determined by the average of the last three dealing days prior to the date of grant. There are no performance conditions attached to the awards, but options will only vest if certain employment conditions are met. The fair value at grant date is estimated at the grant date using a Black Scholes option-pricing model. The normal vesting date shall be no earlier than the third anniversary of the grant date and not later than the day before the tenth anniversary of the grant date. There is no cash settlement of the options available under the scheme. During the year the Group granted 2,904,100 (2022: 2,802,000) options. For the year ended 28 February 2023, 127,400 (2022: 63,000) options were forfeited, and no options were exercised or expired.

Save as You Earn Scheme

Share options were granted to eligible employees under the Save As You Earn Scheme (SAYE) during the year. Under the SAYE scheme, employees enter a three-year savings contract in which they save a fixed amount each month in return for their SAYE options. At the end of the three-year period, employees can either exercise their options in exchange for shares in Bytes Technology Group plc or have their savings returned to them in full. The exercise price of the options represents a 20% discount to the exercise price of the CSOP awards. The fair value at grant date is estimated using a Black Scholes option-pricing model. There is no cash settlement of the options. During the year the Group granted 722,863 (2022: 1,103,220) options. For the year ended 28 February 2023, 523,974 (2022: 49,815) options were forfeited, and no options were exercised or expired.

Deferred Bonus Plan

Options granted under the Deferred Bonus Plan (DBP) are for shares in Bytes Technology Group plc. The exercise price of the options is a nominal amount of £0.01. There are no performance conditions attached to the awards, but options will only vest if certain employment conditions are met. The fair value at grant date is estimated at the grant date using a Black Scholes option-pricing model. The normal vesting date shall be no earlier than the second anniversary of the grant date. During the year the Group granted 35,842 options. No options granted under the DBP were forfeited, exercised or expired.

Share-based payment employee expenses

	Year ended 28 February 2023 £'000	Year ended 28 February 2022 £'000
Equity settled share-based payment expenses	4,188	2,563

There were no cancellations or modifications to the awards in 2023 or 2022.

Notes to the financial statements continued

28 Share-based payments continued**Movements during the year**

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

	28 February 2023 Number	28 February 2023 WAEP	28 February 2022 Number	28 February 2022 WAEP
Outstanding at 1 March	5,227,362	£3.43	1,480,110	£0.01
Granted during the year	4,215,285	£3.84	3,905,220	£4.72
Forfeited during the year	(681,963)	£3.98	(157,968)	£3.26
Outstanding at 28 February	8,760,684	£3.59	5,227,362	£3.43
Exercisable at 28 February	–	–	–	–

The weighted average expected remaining contractual life for the share options outstanding at 28 February 2023 was 2.9 years (2022: 3.2 years).

The weighted average fair value of options granted during the year was £1.63 (2022: £1.29).

The range of exercise prices for options outstanding at the end of the year was £0.01 to £5.00 (2022: £0.01 to £5.00).

The tables below list the inputs to the models used for the awards granted under the below plans for the years ended 28 February 2023 and 28 February 2022:

Assumptions	28 February 2023 PISP	28 February 2023 CSOP	28 February 2023 SAYE	28 February 2023 DBP
Weighted average fair value at measurement date	£4.06	£1.20	£1.38	£4.52
Expected dividend yield	1.52%	1.52%	1.54%	0.00%
Expected volatility	37%	34%	37%	35%
Risk-free interest rate	1.59%	1.72%	1.59%	1.53%
Expected life of options	3 years	5 years	3 years	2 years
Weighted average share price	£4.53	£4.53	£4.48	£4.53
Model used	Black Scholes and Monte Carlo	Black Scholes	Black Scholes	Black Scholes

Assumptions	28 February 2022 CSOP	28 February 2022 SAYE
Weighted average fair value at measurement date	£1.26	£1.38
Expected dividend yield	1.26%	1.26%
Expected volatility	35%	35%
Risk-free interest rate	0.16%	0.22%
Expected life of options	5 years	3 years
Weighted average share price	£5.00	£4.82
Model used	Black Scholes	Black Scholes

The expected life of the options is based on current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility of the company and publicly quoted companies in a similar sector to the company over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

29 Earnings per share

The Group calculates earnings per share (EPS) on several different bases in accordance with IFRS and prevailing South Africa requirements.

	Year ended 28 February 2023 pence	Year ended 28 February 2022 pence
Basic earnings per share	16.88	13.72
Diluted earnings per share	16.28	13.42
Headline earnings per share	16.88	13.72
Diluted headline earnings per share ¹	16.28	13.42
Adjusted earnings per share ¹	18.83	15.46
Diluted adjusted earnings per share	18.16	15.12

1 Refer note 29(c), had the prior year adjusted operating profit included the effects of deferred tax on the adjusting items the adjusted earnings per share would have been 15.30 and the diluted adjusted earnings per share would have been 14.97.

29(a) Weighted average number of shares used as the denominator

	Year ended 28 February 2023 Number	Year ended 28 February 2022 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share and headline earnings per share	239,482,333	239,482,333
Adjustments for calculation of diluted earnings per share and diluted headline earnings per share:		
– share options ¹	8,760,684	5,385,330
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share and diluted headline earnings per share	248,243,017	244,867,663

1 Share options

Share options granted to employees under the Save As You Earn Scheme, Company Share Option Plan and Bytes Technology Group plc performance incentive share plan are considered to be potential ordinary shares. They have been included in the determination of diluted earnings per share on the basis that all employees are employed at the reporting date, and to the extent that they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the share options are disclosed in note 28.

29(b) Headline earnings per share

The Group is required to calculate headline earnings per share (HEPS) in accordance with the JSE Listing Requirements. The table below reconciles the profits attributable to ordinary shareholders to headline earnings and summarises the calculation of basic and diluted HEPS:

	Note	Year ended 28 February 2023 pence	Year ended 28 February 2022 pence
Profit for the period attributable to owners of the company		40,421	32,854
Adjusted for:			
Loss on disposal of property, plant and equipment	4	3	15
Tax effect thereon		(1)	(3)
Headline profits attributable to owners of the company		40,423	32,866

Notes to the financial statements continued

29 Earnings per share continued**29(c) Adjusted earnings per share**

Adjusted earnings per share is a Group key alternative performance measure which is consistent with the way that financial performance is measured by senior management of the Group. It is calculated by dividing the adjusted operating profit attributable to ordinary shareholders by the total number of ordinary shares in issue at the end of the year. Adjusted operating profit is calculated to reflect the underlying long-term performance of the Group by excluding the impact of the following items:

- Share-based payment charges
- Acquired intangible assets amortisation.

The table below reconciles the profit for the financial year to adjusted earnings and summarises the calculation of adjusted EPS:

	Note	Year ended 28 February 2023 £'000	Year ended 28 February 2022 £'000
Profits attributable to owners of the company		40,421	32,854
Adjusted for:			
– Amortisation of acquired intangible assets	4	1,306	1,611
– Deferred tax effect on above ¹		(301)	–
– Share-based payment charges	28	4,188	2,563
– Deferred tax effect on above ¹		(522)	–
Adjusted profits attributable to owners of the company		45,092	37,028

¹ The prior year has not been restated to include the deferred tax effect on the adjusting items as the impact was considered to be immaterial. Had the prior year been restated the adjusted profits attributable to owners of the company would have been £36.6 million.

30 Subsidiaries

The Group's subsidiaries included in the consolidated financial statements are set out below. The country of incorporation is also their principal place of business.

Name of entity	Country of incorporation	Ownership interest	Principal activities
Bytes Technology Holdco Limited ¹	UK	100%	Holding company
Bytes Technology Limited	UK	100%	Holding company
Bytes Software Services Limited	UK	100%	Providing cloud-based licensing and infrastructure and security sales within both the corporate and public sectors
Blenheim Group Limited ²	UK	100%	Holding company in prior year. The company transferred its investment in Phoenix Software Limited to Bytes Technology Limited and became dormant during February 2022
Phoenix Software limited	UK	100%	Providing cloud-based licensing and infrastructure and security sales within both the corporate and public sectors
License Dashboard Limited ²	UK	100%	Dormant for all periods
Bytes Security Partnerships Limited ²	UK	100%	Dormant for all periods
Bytes Technology Group Holdings Limited ²	UK	100%	Dormant for all periods
Bytes Technology Training Limited ²	UK	100%	Dormant for all periods
Elastabytes Limited ²	UK	50%	Dormant for all periods

¹ Bytes Technology Holdco Limited is held directly by the company. All other subsidiary undertakings are held indirectly by the company.

² Taken advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended 28 February 2023.

The registered address of all of the Group subsidiaries included above is Bytes House, Randalls Way, Leatherhead, Surrey, KT22 7TW.

31 Events after the reporting period

With effect from 18 April 2023 the Group acquired 25.1% interest in Cloud Bridge Technologies Limited for £3.0 million. As disclosed in note 24(c)(2) the Group replaced the current Revolving Credit Facility (RCF) with a new RCF. These have no impact on the results reported for the year ended 28 February 2023. There are no other events after the reporting period that require disclosure in these financial statements.

Parent company financial statements of Bytes Technology Group plc

Company balance sheet

As at 28 February 2023

	Note	As at 28 February 2023 £'000	As at 28 February 2022 £'000
Assets			
Non-current assets			
Investments	5	641,998	641,998
Property, plant and equipment	6	187	–
Deferred tax assets	4	25	–
Total non-current assets		642,210	641,998
Current assets			
Trade and other receivables	7	20,000	41,615
Cash and cash equivalents		27,913	3,718
Total current assets		47,913	45,333
Total assets		690,123	687,331
Current liabilities			
Trade and other payables	8	(11,446)	(14,665)
Total current liabilities		(11,446)	(14,665)
Total liabilities		(11,446)	(14,665)
Net assets		678,677	672,666
Equity			
Share capital	10	2,395	2,395
Share premium	10	633,636	633,636
Share-based payment reserve	11	7,052	2,864
Retained earnings ¹	12	35,594	33,771
Total equity		678,677	672,666

1 The profit for the company for the period was £32,477,000 (2022: £43,178,000).

The Financial Statements on pages 165 to 174 were approved by the Board of directors on 22 May 2023 and signed on its behalf by:



Neil Murphy
Chief Executive Officer



Andrew Holden
Chief Financial Officer

Parent company financial statements of Bytes Technology Group plc continued

Company statement of changes in equity

For the year ended 28 February 2023

	Note	Attributable to owners of the company				
		Share capital £'000	Share premium £'000	Share-based payment reserve £'000	Retained earnings £'000	Total £'000
At 1 March 2021		2,395	633,636	–	(4,617)	631,414
Total comprehensive income for the year	12	–	–		43,178	43,178
Share-based payment transactions	11	–	–	2,864	–	2,864
Dividends paid	12	–	–	–	(4,790)	(4,790)
Balance at 28 February 2022		2,395	633,636	2,864	33,771	672,666
Total comprehensive income for the year	12	–	–		32,477	32,477
Share-based payment transactions	11	–	–	4,188	–	4,188
Dividends paid	12	–	–	–	(30,654)	(30,654)
Balance at 28 February 2023		2,395	633,636	7,052	35,594	678,677

Notes to the financial statements

1 Accounting policies

The principal accounting policies applied are summarised below.

1.1 Authorisation of financial statements and statement of compliance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101)

The financial statements of Bytes Technology Group plc for the period ended 28 February 2023 were approved and signed by the Chief Executive Officer on 23 May 2023 having been duly authorised to do so by the Board of directors. The company meets the definition of a qualifying entity under Financial Reporting Standard 100 Application of Financial Reporting Requirements (FRS 100) issued by the Financial Reporting Council. Accordingly, these financial statements have been prepared in accordance with FRS 101 and in accordance with the provisions of the UK Companies Act 2006.

1.2 Basis of preparation

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

Bytes Technology Group plc is a company incorporated in the UK under the Companies Act. The address of the registered office is provided on page 178. The company is the ultimate parent company and provides management services to subsidiary undertakings in respect of certain head office functions and requirements, which are recharged as the costs are incurred by the company.

The company's financial statements are included in the Bytes Technology Group plc consolidated financial statements for the period ended 28 February 2023.

These financial statements are separate financial statements.

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 101:

- The requirements of IFRS 7 Financial Instruments Disclosures
- The requirements of paragraphs 91 to 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
- The requirement of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 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 paragraphs 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 group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of Assets, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated
- The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.

Where required, equivalent disclosures are given in the consolidated financial statements of Bytes Technology Group plc. As permitted by Section 408 of the Companies Act 2006, the income statement of the company is not presented as part of these financial statements.

1.3 Going concern

The ability of the company to continue as a going concern is contingent on the ongoing viability of the Group and its ability to continue as a going concern. The Group has prepared its going concern assessment and this is provided in note 1.3 in the notes to the financial statements included in the Bytes Technology Group plc consolidated financial statements. Having assessed the Group's overall assessment of going concern in relation to the company, the directors considered it appropriate to adopt the going concern basis of accounting in preparing the company's financial statements.

1.4 Critical accounting estimates and judgements

The preparation of the financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the company's accounting policies.

There are no major or other sources of estimation uncertainty at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Detailed information about each of these estimates and judgements is included in other notes, together with information about the basis of calculation for each affected line item in the financial statements.

Notes to the financial statements continued

1.4 Critical accounting estimates and judgements continued

The areas involving accounting estimates are:

Impairment of investments

The investments in subsidiaries are assessed annually to determine if there is any indication that any of the investments might be impaired. The recoverable amounts are determined based on a value-in-use calculation and compared to the carrying value of the investment. The value-in-use calculation is based on forecasts approved by management. The cash flows beyond the forecast period are extrapolated using estimated long-term growth rates. The forecast cash flows are discounted at the company's discount rate. The assumptions used are consistent with those disclosed in note 11 to the notes to the consolidated financial statements of the Group.

1.5 Changes in accounting policy and disclosures**(a) New and amended standards adopted by the company**

There are no new standards applied for the first time in the annual reporting period commencing 1 March 2022.

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 28 February 2023 reporting periods and have not been adopted early by the company. These standards are not expected to have a material impact on the company in the current or future reporting periods and on foreseeable future transactions.

1.6 Investments

Investments in subsidiary undertakings are included in the balance sheet at cost less any provision for impairment in value. The company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication of impairment exists, the company makes an estimate of its recoverable amount. Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount. Where these circumstances have reversed, the impairment previously made is reversed to the extent of the original cost of the investment.

1.7 Functional and presentation currency

The financial statements are presented in pounds sterling (£), which is the company's functional and presentation currency. All transactions undertaken by the company are denominated in pounds Sterling.

1.8 Revenue recognition

The company provides management services to subsidiary undertakings which are invoiced quarterly in arrears. Revenue from providing such services is recognised in the accounting period in which the services are rendered on an over time basis. In measuring its performance and the amount of revenue to be recognised, the company applies an inputs basis by reference to the costs incurred by the company and the hours expended by management for providing services to the measurement date.

1.9 Income tax

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the UK. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

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. Deferred income tax is also 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 or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period 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 only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

1.10 Property, plant and equipment

Owned assets

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses. When components of an item of property, plant and equipment have different useful lives, those components are accounted for as separate items of property, plant and equipment. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Depreciation

Depreciation is recognised in profit or loss for each category of assets on a straight-line basis over their expected useful lives up to their respective estimated residual values.

The estimated useful lives for the current and comparative periods are as follows:

- IT software, three years.

The depreciation methods, useful lives and residual values are reassessed annually and adjusted if appropriate.

1.11 Trade and other receivables

Trade receivables are recognised initially at the amount of consideration that is unconditional, i.e. fair value and subsequently measured at amortised cost using the effective interest method, less loss allowance. Prepayments and other receivables are stated at their nominal values.

1.12 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

1.13 Financial instruments

Financial instruments comprise investments in equity, loans receivable, trade and other receivables (excluding prepayments), investments, cash and cash equivalents, restricted cash, non-current loans, current loans, bank overdrafts, derivatives and trade and other payables.

Recognition

Financial assets and liabilities are recognised in the company's balance sheet when the company becomes a party to the contractual provisions of the instruments. Financial assets are recognised on the date the company commits to purchase the instruments (trade-date accounting).

Financial assets are classified as current if expected to be realised or settled within 12 months from the reporting date; if not, they are classified as non-current. Financial liabilities are classified as non-current if the company has an unconditional right to defer payment for more than 12 months from the reporting date.

Classification

The company classifies financial assets on initial recognition as measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL) based on the company's business model for managing the financial asset and the cash flow characteristics of the financial asset.

Financial assets are classified as follows:

- Financial assets to be measured subsequently at fair value (either through other comprehensive income (OCI) or through profit or loss)
- Financial assets to be measured at amortised cost.

Financial assets are not reclassified unless the company changes its business model. In rare circumstances where the company does change its business model, reclassifications are done prospectively from the date that the company changes its business model.

Financial liabilities are classified and measured at amortised cost except for those derivative liabilities and contingent consideration that are measured at FVTPL.

Measurement on initial recognition

All financial assets and financial liabilities are initially measured at fair value, including transaction costs, except for those classified as FVTPL which are initially measured at fair value excluding transaction costs. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Subsequent measurement: financial assets

Subsequent to initial recognition, financial assets are measured as described below:

- *FVTPL* – these financial assets are subsequently measured at fair value and changes therein (including any interest or dividend income) are recognised in profit or loss
- *Amortised cost* – these financial assets are subsequently measured at amortised cost using the effective interest method, less impairment losses. Interest income, foreign exchange gains and losses and impairments are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss
- *Equity instruments at FVOCI* – these financial assets are subsequently measured at fair value. Dividends are recognised in profit or loss when the right to receive payment is established. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are not reclassified to profit or loss.

Notes to the financial statements continued

1.13 Financial instruments continued*Subsequent measurement: Financial liabilities*

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligations specified in the contracts are discharged, cancelled or expire. On derecognition of a financial asset or liability, any difference between the carrying amount extinguished and the consideration paid is recognised in profit or loss.

Impairment

The company assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

1.14 Trade and other payables

Trade payables, sundry creditors and accrued expenses are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are accounted for in accordance with the accounting policy for financial liabilities as included above. Other payables are stated at their nominal values.

1.15 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

1.16 Employee benefits*Short-term obligations*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave, that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

Post-employment obligations

The company operates various defined contribution plans for its employees. Once the contributions have been paid, the company has no further payment obligations. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

*Share-based payments**Equity-settled share-based payment schemes*

Share-based compensation benefits are provided to particular employees of the Group through the Bytes Technology Group plc share option plans.

Employee options

The fair values of options granted under the Bytes Technology Group plc share option plans are recognised as employee benefit expenses in the entities of the Group in which the employees are contracted and providing their services. The total amount to be expensed is determined by reference to the fair value of the options granted. The total expense is recognised over the vesting period, which is the period over which all the specified vesting conditions are to be satisfied. At the end of each period, the Group revises its estimates of the number of options issued that are expected to vest based on the service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

The company has a recharge arrangement with its subsidiaries whereby the company recharges the amount equal to the share-based payment charge to its subsidiaries according to the vesting schedule.

1.17 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

1.18 Dividends

Dividends paid on ordinary shares are classified as equity and are recognised as distributions in equity.

1.19 Rounding of amounts

All amounts disclosed in the consolidated financial statements and notes have been rounded off to the nearest thousand, unless otherwise stated.

2 Directors' remuneration

	Year ended 28 February 2023 £'000	Year ended 28 February 2022 £'000
Remuneration of directors:		
Directors' remuneration ¹	1,823	1,577
Social security costs	242	150
Pension costs	17	11
	2,082	1,738

¹ Directors' remuneration

The amounts comprise fees paid to the non-executive directors and, for executive directors, salary and benefits earned for the period. Further information is provided in the directors' remuneration report on pages 100 to 111.

3 Employee costs and numbers

	Year ended 28 February 2023 £'000	Year ended 28 February 2022 £'000
Employee benefit expense:		
Employee remuneration	629	461
Social security costs	109	121
Pension costs	21	13
	759	595

The average monthly number of employees during the period was:

	Year ended 28 February 2023 Number	Year ended 28 February 2022 Number
Administration	5	4
	5	4

4 Income tax expense

The major components of the company's income tax expense are:

	Year ended 28 February 2023 £'000	Year ended 28 February 2022 £'000
Current income tax charge in the period	–	–
Total current income tax charge	–	–
Origination and reversal of timing differences	(19)	–
Effect of changes in tax rates	(6)	–
Deferred tax	(25)	–
Total tax (credit)/charge	(25)	–

Notes to the financial statements continued

4 Income tax expense continued**Reconciliation of total tax charge**

The tax assessed for the period differs from the standard rate of corporation tax in the UK applied to profit before tax:

	Year ended 28 February 2023 £'000	Year ended 28 February 2022 £'000
Profit before income tax	32,477	43,178
Income tax charge at the standard rate of corporation tax in the UK of 19% for all periods	6,171	8,204
Effects of:		
Non-deductible expenses	38	–
Non-taxable income	(6,317)	(8,479)
Group relief surrendered	83	275
Income tax credit reported in profit or loss	(25)	–

Changes affecting the future tax charge

Effective from 1 April 2023 the UK corporate tax rate increases to 25%, this change has been used to rebase the deferred tax liability.

	As at 28 February 2023 £'000	As at 28 February 2022 £'000
Deferred tax asset		
The balance comprises temporary differences attributable to:		
Property, plant and equipment	47	–
Share-based payments	(72)	–
	(25)	–

	As at 28 February 2023 £'000	As at 28 February 2022 £'000
Deferred tax asset		
At 1 March	–	–
Credited to profit or loss	(25)	–
Carrying amount at end of year	(25)	–

5 Investments in subsidiaries

	As at 28 February 2023 £'000	As at 28 February 2022 £'000
Opening balance	641,998	(46,630)
Capital contribution ¹	–	595,368
	641,998	641,998

1 Capital contribution

On 26 August 2021, Bytes Technology Holdco Limited issued ordinary shares to the company for a consideration of £595.4 million. The consideration resulted in the settlement of the intercompany receivable from Bytes Technology Holdco Limited.

2 Subsidiary undertakings

A detailed listing of the company's direct and indirect subsidiaries is set out in note 30 in the notes to the financial information in the consolidated financial statements of the Group.

6 Property, plant and equipment

	Computer software £'000	Total £'000
Cost		
At 1 March 2021 and 28 February 2022	–	–
Additions	198	198
At 28 February 2023	198	198
Depreciation		
At 1 March 2021 and 28 February 2022	–	–
Charge for the year	11	11
At 28 February 2023	11	11
Net book value		
At 28 February 2022	–	–
At 28 February 2023	187	187

7 Trade and other receivables

	As at 28 February 2023 £'000	As at 28 February 2022 £'000
Amounts due from other Group companies ¹	19,748	41,280
Prepayments	252	335
	20,000	41,615

¹ During the prior year, Bytes Technology Holdco Limited issued ordinary shares to the company for a consideration of £595.4 million. The consideration resulted in the settlement of the intercompany receivable from Bytes Technology Holdco Limited that was outstanding at 28 February 2021.

8 Trade and other payables

	As at 28 February 2023 £'000	As at 28 February 2022 £'000
Trade and other payables	2,006	1,015
Amounts due to other Group companies ¹	9,440	13,650
	11,446	14,665

¹ Amounts due to other Group companies are unsecured, interest free and repayable on demand.

9 Borrowings

On 17 May 2023 the Group entered into a new three-year committed Revolving Credit Facility (RCF) for £30 million, including an optional one-year extension to 17 May 2027, and a non-committed £20 million accordion to increase the availability of funding should it be required for future activity. The new facility replaced the previous RCF which was entered into in December 2020 and reduced to £30 million in December 2022. This was set to expire in December 2023 but was cancelled, without penalty, on 17 May 2023, on commencement of the new RCF. In December 2020, the Group incurred arrangement fees of £0.4 million representing 0.75% of the initial £50 million facility available at the time. The new facility has incurred an arrangement fee of £0.1 million, being 0.4% of the new funds available. Neither the company, nor any of its subsidiaries, has drawn down any amount on either the previous or the new facility and to the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee has been capitalised as a prepayment and amortised over the three-year period of the facility. The facility also incurs a commitment fee and utilisation fee, both of which are payable quarterly in arrears. For further details on the RCF, see note 24(c) in the notes to the consolidated financial statements of the Group.

Notes to the financial statements continued

10 Share capital and share premium

Ordinary shares				
Authorised, allotted, called up and fully paid	Number of shares	Nominal value £'000	Share premium £'000	Total £'000
At 1 March 2021	239,482,333	2,395	633,636	636,031
Shares issued during the period ¹	–	–	–	–
At 28 February 2022 and 28 February 2023 ²	239,482,333	2,395	633,636	636,031

1 Shares issued during the period
No shares were issued during the prior or the current period.

2 Ordinary shares
Ordinary shares have a nominal value of £0.01. All ordinary shares in issue rank pari passu and carry the same voting rights and entitlement to receive dividends and other distributions declared or paid by the company. The company does not have a limited amount of authorised share capital.

11 Share-based payment reserve

The following table shows the movements in these reserves during the year. All movements relate to the Group's share-based payment schemes per accounting policy note 1.16. Further details are also provided in note 28 in the notes to the consolidated financial statements of the Group.

	As at 28 February 2023 £'000	As at 28 February 2022 £'000
Balance at 1 March	2,864	–
Share-based payment charges	4,188	2,864
	7,052	2,864

12 Retained earnings

	As at 28 February 2023 £'000	As at 28 February 2022 £'000
Movements in retained earnings were as follows:		
Balance at 1 March	33,771	(4,617)
Net profit/(loss) for the period	32,477	43,178
Dividends	(30,654)	(4,790)
	35,594	33,771

13 Information included in the notes to the consolidated financial statements

Some of the information included in the notes to the consolidated financial statements is directly relevant to the financial statements of the company. Please refer to the following:

Note 6 – Auditors' remuneration

Note 27(a) – Transactions with key management personnel

Note 28 – Share-based payments

Note 31 – Events after the reporting period.



Other information

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Glossary

Admission: the admission of BTG's shares to the premium listing segment of the Official List and to trading on the London Stock Exchange's Main Market and on the Main Board of the Johannesburg Stock Exchange via secondary inward listing

Altron: Allied Electronics Corporation Limited, a public company incorporated and registered in accordance with South African law, with registration number 1947/024583/06

Articles: the articles of association of the company

Bytes: Bytes Software Services Limited a private limited company incorporated under English and Welsh law, with registered number 01616977

Carbon Neutral: Offsetting of carbon emissions resulting in no net release of carbon through offsetting by investing in climate action and mitigation projects

CDP: Carbon Disclosure Project, a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts.

Cloud or cloud computing: shared, remotely-accessible IT solutions

Company or BTG: Bytes Technology Group plc, a public limited company incorporated under English and Welsh law, with registered number 12935776

CSP: the Microsoft Cloud Solutions Provider programme

Executive directors: the executive directors of the company, being Neil Murphy and Andrew Holden

Existing customers: customers with which the Group has previously transacted

FCA: the Financial Conduct Authority

GDPR: the General Data Protection Regulation 2016/679

Group: Bytes Technology Group plc, Bytes Software Services Limited, Phoenix Software Limited and any other subsidiary of the company from time to time.

HMRC: HM Revenue and Customs

IT channel: the method by which the Group products are made available to its resellers

JSE: as the context requires, either: JSE Limited (registration number 2005/022939/06), a limited liability public company incorporated in accordance with South African law and licensed as an exchange under the South African Financial Markets Act, No. 19 of 2012 (and amendments thereto), or the securities exchange operated by the aforementioned company

License Dashboard: License Dashboard Limited, a private limited company incorporated under English and Welsh law, with registered number 06599902

Listing Rules: the listing rules of the FCA made under section 74(4) of the Financial Services and Markets Act 2000, as amended

London Stock Exchange: London Stock Exchange plc

Main Market: the London Stock Exchange's main market for listed securities

Microsoft certified professional: a sales team member who has passed Microsoft's certified professional exam

Net Zero: Our working definition of Net Zero aligns with SBTi's science-based Net-Zero Standard, which is to reduce our emissions by 90-95% and use carbon removal credits to neutralise emissions which we cannot remove

Non-executive directors: the non-executive directors of the company, being Patrick De Smedt, Mike Phillips, Alison Vincent, Erika Schraner and David Maw

Numis: Numis Securities Limited

Official List: the Official List of the FCA

Phoenix: Phoenix Software Limited, a private limited company incorporated under English and Welsh law, with registered number 02548628

Shareholders: the holders of shares in the capital of the company

UK Corporate Governance Code: the UK Corporate Governance Code published by the Financial Reporting Council in July 2018, as amended from time to time

UN Sustainable Development Goals: The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, consists of 17 Sustainable Development Goals (SDGs). It recognises that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while addressing climate change and working to preserve oceans and forests

United Kingdom or UK: the United Kingdom of Great Britain and Northern Ireland

VAR: value-added reseller

VAT: value-added tax

Appendix

Methodology

Greenhouse gas (GHG) emissions disclosure

We have reported on the emission sources required under the Companies Act 2006 Strategic Report and Directors' Report Regulations 2013 and have followed the requirements of the SECR framework. We have used the GHG Protocol Corporate Accounting and Reporting Standard to calculate our GHG emissions and applied the emission factors from the UK Government's GHG Conversion Factors for Company Reporting for the most recent year published when analysis is conducted.

We report on all emission sources required by SECR, under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. These sources fall within our consolidated financial statement.

We followed the methodology of ISO 14064-1, which provides guidance at the organisational level for the quantification and reporting of greenhouse gas emissions and removals.

Our approach to reporting carbon emissions

We have reported on our carbon emissions reduction since we listed in December 2020. Before this, carbon emission reporting was an established part of our operating companies' reporting process, as a required regulatory disclosure for our former listed group. In 2022/23, we worked with CBN Expert consultancy to map our energy and carbon data (Scope 1, 2 and 3), using our 2020/21 baseline, which we report under the Streamlined Energy and Carbon Reporting (SECR) regulations. (For more details, see page 49.)

We follow the methodology of ISO 14064-1 (Specification with guidance at the organisation level for quantification and reporting of greenhouse gas emissions and removals), and emission factors from UK Government GHG Conversion Factors for Company Reporting. We calculate our emissions using factors published each year by the UK Government. In our greenhouse gas/carbon emissions reporting, as well as recording carbon dioxide (CO₂), we include all other GHGs covered under good practice reporting, that is: methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFC), perfluorocarbons (PFC) and sulphur hexafluoride (SF₆). We calculate and report GHG emissions in tonnes of carbon dioxide equivalent (tCO₂e), following recommended best practice. Procured renewable electricity and gas is calculated in accordance with the WBCSD – WSI Scope 2 Guidance on procured renewable energy (2015).

In line with ISO 14064-1, in reporting our carbon footprint we use the principle of operational and financial control. This involves us accounting for GHG emissions from operations over which BTG has control; both financial control – where we direct the financial and working policies of our businesses to gain economic benefits from our activities – and operational control, where we have full authority to introduce and implement our working policies.

To calculate our emissions, we use Greenhouse Gas Protocol standards, which categorise emissions into three scopes. For more on our approach to calculating our carbon footprint, see our methodology opposite. Further information about our carbon reduction targets, workstreams and performance data is set out on pages 45 and 46, and under sustainability at bytesplc.com.

We will continue to improve the quality and coverage of our carbon emissions and associated reporting. As this process matures, we will continue to work with external experts to assure our carbon data disclosures. In 2023/24, we will continue to expand the coverage of our carbon footprint to include the identified Scope 3 Categories, including capital good, end of life treatment and use of sold products. We will improve our data collection and accuracy for commuting and deliveries

Waste management and water are included within our carbon calculations, but we consider that impacts relating to biodiversity and land use are not material to our business and therefore outside our measurement scope. However, we will continue to undertake initiatives to improve the biodiversity in our local areas, through volunteering with charities and to educate on the importance of our natural world.

Company information

Bytes Technology Group plc

A public limited company
incorporated in England & Wales
under the Companies Act 2006
with registered number 12935776

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Financial calendar

Financial calendar

23 May 2023

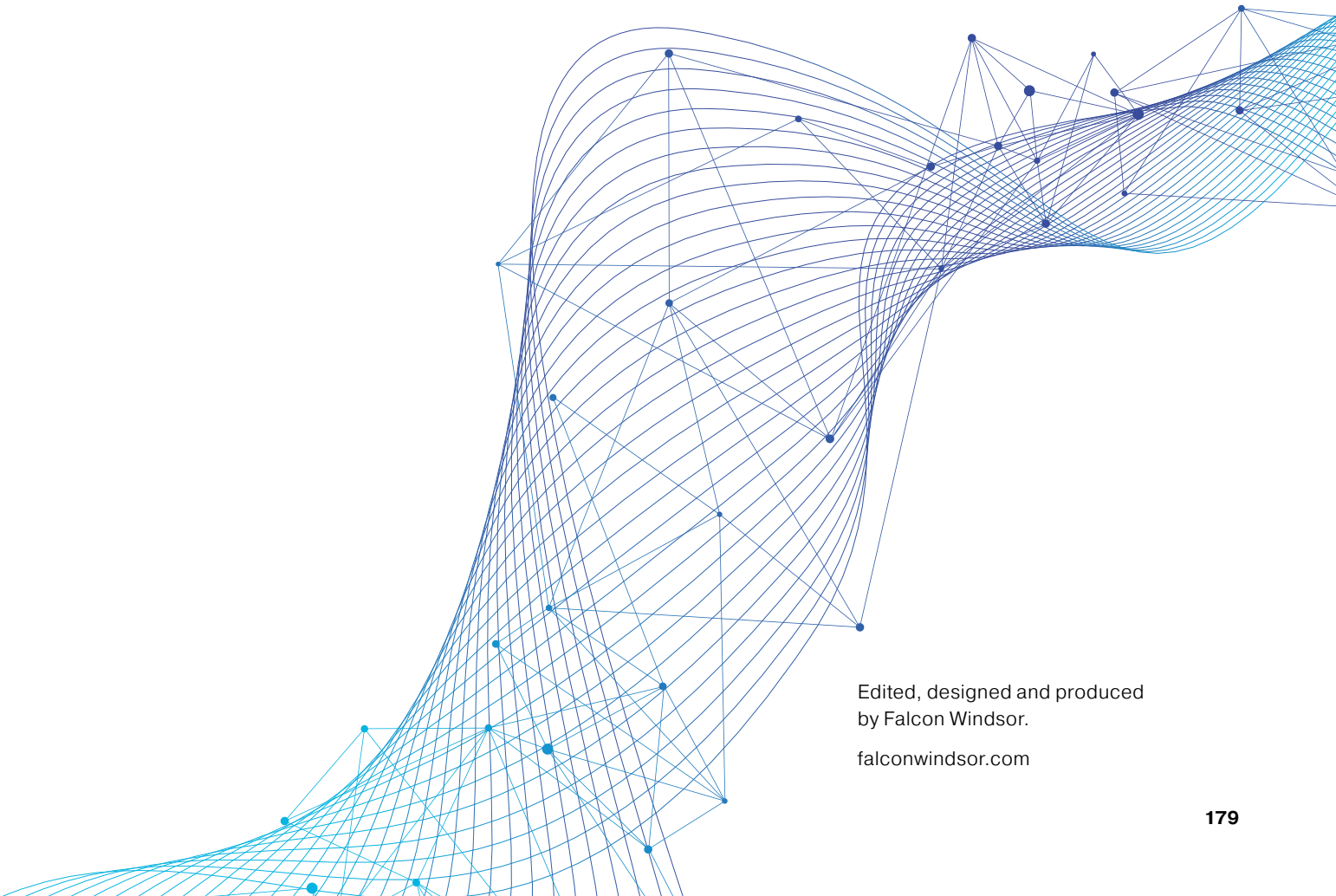
Release of results for the financial year ended 28 February 2023

12 July 2023 14:00 (BST)

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Interim results



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