Sharpening the focus to accelerate the transition to SaaS

Overview

- FY18 organic revenue growth of 6.8% (6.6% including asset held for sale) and organic operating margin of 27.8% achieved (27.2% including asset held for sale);
- Improvement in H2 18 performance with renewed focus on high-quality subscription and recurring revenue, driving accelerated momentum into FY19, with issues identified in H1 18 addressed;
- Building on this momentum, Sage Business Cloud ARR is now £434m, growing at 51%;
- In FY19 the business will continue to sharpen its focus on accelerating the transition to Software-as-a-Service (SaaS) with key operational priorities identified to do so.

FINANCIAL SUMMARY	FY18	FY17	Change
Organic revenue[1]	**£1,819m**	**£1,703m**	**6.8%**
Recurring revenue	£1,441m	£1,352m	6.7%
Of which, subscription	*£839m*	*£670m*	*25.2%*
Processing revenue	£55m	£51m	6.2%
Software and software related services (SSRS) revenue	£323m	£300m	7.6%
Organic operating profit	£505m	£475[2]m	£30m
Organic operating profit margin	**27.8%**	**28.0[2]%**	**(0.2%)**
EBITDA Margin	29.2%	29.4%	(0.2%)
Non-recurring charge	£10m	£70m	(86%)
Return on capital employed	23.0%	26.9%	(3.9%)
Net debt : EBITDA	1.2x	1.6x	N/A
Adjusted EPS[3]	32.51p	28.46p	14.2%
Underlying cash conversion	96%	95%	100bps
Free cash flow as a proportion of revenue	19%	15%	400bps
Ordinary dividend per share	16.50p	15.42p	7.0%
Organic revenue including impact of asset held for sale	£1,857m	£1,741m	6.6%
Underlying operating profit margin	27.2%	27.3%	(0.1%)
STATUTORY SUMMARY	**FY18**	**FY17**	**Change**
Revenue from continuing operations	£1,846m	£1,715m	7.6%
Operating profit	£427m	£348m	22.7%
Profit before tax	£398m	£342m	16.4%
Basic EPS (total operations)	27.21p	27.80p	(2.1%)

FY18 performance

- Improvement in H2 18 performance with organic revenue growth of 7.0% achieved, driven by renewed focus on high-quality subscription and recurring revenue, with both August and

[1] All revenue numbers throughout this document are organic unless otherwise stated.
[2] As reported.
[3] The adjusted EPS neutralises the impact of significant acquisitions and disposals by excluding current period acquisitions and current and prior period disposals and by including prior year acquisitions in the comparable period based on the margin achieved by the acquired business in the prior year for the post-acquisition period.

September showing recurring revenue growth in excess of 7% year-on-year and sequential month-on-month growth, driving momentum into FY19;
- Recovery in Northern Europe (UK&I), with sequential increases in recurring revenue growth in every month in H2 18 and in France, which in Q4 18 delivered the strongest quarter since Q1 16; double digit organic and recurring growth was also achieved in North America;
- Strong momentum in cloud connected solutions, delivering ARR growth of 66% and cloud native solutions of Sage Intacct and Sage People, delivering ARR growth of 30% and 49% respectively;
- Recurring revenue represents 79% of revenue and software subscription is 46% of revenue;
- Organic operating margin of 27.8% achieved. Non-recurring charge of £10m, reflecting provisions and settlement of legal disputes and structural redundancies;
- Strong free cash flow of £356m, 19% of revenue, ROCE of 23% and net debt : EBITDA reduced to 1.2x. 7% increase in full year ordinary dividend to 16.50p, with a policy to maintaining the dividend in real terms going forward;
- Sage Payroll Solutions, the US-based payroll outsourcing services business is now classified as held for sale and excluded from organic numbers.

Initial priorities for FY19

Sage's vision is to become a great SaaS business for customers and colleagues alike. Sage has made significant progress towards building a SaaS business with 46% software subscription revenue and £434m of cloud ARR. In FY19 and beyond, management believe it is essential to accelerate the transition to a SaaS business by sharpening the focus on customers, colleagues and innovation in order to unlock the potential for significant value creation at Sage.

By embracing a closer relationship with customers, putting them and colleagues at the heart of the business, Sage will drive greater customer satisfaction and increase lifetime contract value. This model will drive a sustainable acceleration in recurring revenue growth, underpinned by strong free cashflow, whilst enabling an efficient return on investment.

In order to do this, the key initial priorities for FY19 have been identified:

1. Focus on innovation and accelerating the capability of Sage Business Cloud by:
    - Increasing R&D resource on building out Sage Business Cloud more fully, including embedding emerging technology;
    - Expanding the availability of Sage Business Cloud within our chosen markets, delivering the Sage Intacct internationalisation, starting with Australia and the UK&I;
    - Enhancing the 'service fabric' of Sage Business Cloud to improve user experience, migration pathways, micro-services and connectivity of ecosystem.

2. Enhancing customer relationships and colleague experience by investing in best-in-class SaaS systems, tools and training to improve data and customer insights.

Together these initiatives are anticipated to require accelerated investment, with an impact on operating expenses of around £60m in FY19, with approximately two thirds of this investment allocated to product and innovation. Management remains committed to delivering 500bps of cost savings over time.

3. Simplification of product portfolio to allow further focus on the c.£1.5bn of products that are in, or have a pathway to, Sage Business Cloud. Identifying value creation paths for remaining c.£350m of other products, either under Sage's ownership, in partnership or through an exit.

Steve Hare, CEO, said:

"Sage has shown stronger performance in the second half of FY18. The renewed focus on high-quality subscription and recurring revenue has generated momentum as we exited the year. As CEO I will put customers, colleagues and innovation at the heart of everything we do to accelerate the transition to becoming a great SaaS business. That means investing further resource in Sage Business Cloud, a continued commitment to customer success and a culture which values the individuals and promotes collaboration. Increased investment in these areas will lead to an acceleration in high-quality sustainable recurring revenue growth."

Outlook

Full year guidance for FY19 is based on the continuing operations of the business, on an IFRS15 like-for-like basis and at constant exchange rates. On this basis, management expects FY19 recurring revenue growth of between 8% to 9% with SSRS and processing revenue expected to be flat or decline mid-single digits, driven by our focus on driving subscription and recurring revenue. As the business accelerates the pace of transition towards subscription, the organic revenue growth rate may decrease in the short-term.

We expect FY19 organic operating margins to be broadly stable before the impact of around £60m of specifically targeted investment to accelerate the transition to SaaS, especially in product and innovation which will also enhance efficiency and effectiveness over time. Including this impact, organic operating margin will be in the range of 23%-25%, maintaining strong free cash flow as a proportion of revenue. Over time, this model will drive a sustainable acceleration in recurring revenue growth whilst enabling strong returns on investment.

IFRS 15

The impact of the transition to IFRS 15 is not anticipated to be significant with a net increase to FY19 opening reserves of £23m, resulting primarily in deferral of commission fees and unbundling of subscription revenue, offset by deferral of contract sign-on fees. Full disclosure on page 28.

About Sage

Sage is the global market leader for technology that helps businesses of all sizes manage everything from money to people – whether they're a start-up, scale-up or enterprise. We do this through Sage Business Cloud - the one and only business management solution that customers will ever need.

This announcement contains inside information for the purposes of Article 7 of Regulation 596/2014. The person responsible for making this announcement on behalf of the Group is Vicki Bradin (Company Secretary).

For more information, visit www.sage.com

Enquiries:

The Sage Group plc
+44 (0) 191 294 3457
Lauren Wholley, Investor Relations
Amy Lawson, Corporate PR

FTI Consulting
+44 (0) 20 3727 1000
Charles Palmer
Dwight Burden

An analyst presentation will be held at 8.30am today at London Stock Exchange plc, 10 Paternoster Square, London, EC4M 7LS. A live webcast of the presentation will be hosted on www.sage.com/investors, dial-in number +44 (0) 330 336 9105, pin code: 5446730#. A replay of the call will also be available for one week after the event: Tel: +44 (0) 808 101 1153, pin code: 5446730#

CEO review

FY18 operating Performance

In FY18, the Group delivered organic revenue growth of 6.8%, reflecting recurring revenue growth of 6.7%, underpinned by software subscription growth of 25.2%. The Group also delivered processing revenue growth of 6.2% and SSRS growth of 7.6%.

The second half of FY18 showed an improvement on the first half of the year, with organic revenue growth of 7.0% in H2 18, driven by a renewed focus on high-quality recurring and subscription revenue, with both August and September showing recurring revenue growth in excess of 7% year-on-year and sequential month-on-month growth.

Actions have been taken to address issues identified at H1 18, namely inconsistent execution in driving recurring revenue in the UK&I and Enterprise Management slippage. In the UK&I, renewed focus on recurring revenue has led to sequential increases in recurring revenue growth in every month in H2 18, exiting with 7% recurring revenue growth in September 2018 (flat at H1 18). In Enterprise Management, the single CRM system is driving improved accuracy of forecasting and visibility of pipeline, laying the foundations for FY19 and showing the importance of expanding the single CRM system to all products and regions.

Regionally, in North America, growth of 12% reflects strong progress in each of the USA, Canada and Sage Intacct. In the USA and Canada, cloud connected solutions have continued to drive growth with over 50% penetration on cloud connected solutions in the region. Enterprise Management in North America has also shown strong growth of 25% in the year.

In Northern Europe (UK & Ireland), organic revenue growth of 2% reflects inconsistent execution in driving recurring revenue in the first half of the year. In H2 18 the region has made strong progress in driving the business towards subscription. The migration of customers to cloud connected solutions has been particularly successful in H2 18, with five times as many cloud connected contracts signed compared to the first six months of the year and half of Sage 50 customers now migrated to a cloud connected solution. This recovery is expected to drive improved organic and recurring revenue growth in the region in FY19.

Recovery in France has continued with Q4 18 delivering the strongest quarter since Q1 16 with revenue growth of 8% in the quarter and 3% growth for the full year. Progress in France has reflected success in driving migration of customers to Sage 50cloud and 200cloud, combined with growth in Enterprise Management and the benefit of unwinding of up-front fees.

In other regions, Central Europe and Australia both delivered double digit growth, Iberia delivered revenue growth of 9%, Africa Middle East grew at 5%, with 3% growth in Latin America and a decline of 5% in Asia.

The Group delivered an organic operating margin of 27.8% and G&A as a proportion of revenue is now 12.9% (FY17: 13.8%[4]). A non-recurring charge of £10m has been recognised in FY18 reflecting provisions and settlement of legal disputes and structural redundancies.

[4] As reported.

FY18 strategic progress

The business has shown continuing progress in the transition to subscription and the cloud:

- Sage Business Cloud ARR of £434m, growing at 51%, with £52m of ARR added in Q4 18;
- Software subscription revenue now represents 46% of total revenue (FY17: 39%);
- Significant increase in volume renewal rates[5] as customers migrate from desktop to cloud connected solutions, with renewal by volume on 50cloud approaching 90% and 200cloud in excess of 90%, in line with the renewal performance for cloud native solutions, such as Sage Intacct and Sage People;
- Group contract renewal rate by value over 100%;
- Six-point increase in Net Promoter Score (NPS) on prior year;
- Sage Enterprise Management revenue growth of 11% with 78 larger contracts signed each for over £100k in the year and stronger regional performance in North America and France.

Cloud connected strategy

- Cloud connected ARR of £280m, growing at 66%;
- There are now 270k cloud connected contracts, with a third of Sage 50 customers now on a cloud connected solution and significant opportunity for further migration of Sage 50 and Sage 200 customers in FY19, as well as expansion of cloud connected portfolio.

Cloud native strategy

- Cloud native ARR of £153m growing at 30%, reflecting:
  - Sage Intacct ARR growth of 30% and renewal by value of 108%;
  - Sage People ARR growth of 49% and renewal by value of 110%;
  - Sage Accounting ARR growth of 18%;
  - Sage Financials ARR growth of 89%.

Innovation

- Sage solutions continue to win awards, including Sage 50cloud awarded 2018 Expert's Choice award from Finances Online; Sage Intacct voted as visionary in the 2018 Gartner Magic Quadrant; and Sage Enterprise Management named in the Gartner Midmarket ERP Magic Quadrant as the cloud solution to watch in 2019;
- Successful launch of Sage Intacct Budgeting and Planning, which is strongly positioned to become the innovation leader in this space for budgeting and planning for mid-sized organisations.

Strategic focus for FY19 – creating a great SaaS business

In the last four years Sage has made substantial progress in moving towards a subscription and cloud-based business, with 46% software subscription penetration and £434m of Sage Business Cloud ARR.

Management believe that driving an accelerated transition to a SaaS business by focusing on customers, colleagues and innovation is critical to unlocking significant potential for value creation that exists at Sage. Management is also committed to continuing to embed a culture which encourages continuous two-way interaction with leadership and colleagues, valuing the individual and enabling a collaborative working environment.

[5] The number of contracts successfully renewed in the last 12 months as a percentage of those due for renewal.

Moving to a true SaaS model will transform Sage's relationship with new and existing customers, with mutual benefits of an improved relationship leading to higher retention rates and higher contract values, which combined, increases lifetime value of contracts. Over time, this model will drive a sustainable acceleration in recurring revenue growth and superior customer acquisition economics.

There are already areas of the business where this model is evident. Sage Intacct, for instance, has a truly SaaS business model, which enables it to deliver volume retention rates around 90%, value retention rates of 108% and a lifetime value of customer many times in excess of the customer acquisition costs. The acquisitions of Sage Intacct and Sage People have provided Sage with best-in-class models to emulate in the transition of the business, as well as key talent with experience of doing so.

In order to accelerate the transition to a SaaS business, the following initial priorities for FY19 have been identified:

1. Focus on innovation and accelerating the capability of Sage Business Cloud.
2. Enhancing customer relationships and colleague experience by investing in best-in-class SaaS systems, tools and training to improve data and customer insights.

Together these initiatives are anticipated to require accelerated investment, with an impact on operating expenses of around £60m in FY19, with approximately two thirds of this investment allocated to product and innovation. Contrary to prior years where G&A savings have been re-directed into go-to-market functions, this investment exercise targets specific areas of focus within the business where it is essential to accelerate investment in order to improve execution to drive a higher sustainable recurring revenue growth rate at an efficient return on investment. Management remains committed to delivering 500bps of cost savings over time.

3. Simplification of product portfolio to allow further focus on the c.£1.5bn of products that are in, or have a pathway to, Sage Business Cloud. Identifying value creation paths for remaining c.£350m of other products, either under Sage's ownership, in partnership or through an exit.

1. Innovation and acceleration of capability of Sage Business Cloud

Constant, customer-led innovation is a core part of a SaaS business model. Sage will increase investment in product and innovation, with particular focus on:

- Increasing R&D resource on building out Sage Business Cloud more fully, including embedding emerging technology;
- Expanding the availability of Sage Business Cloud within our chosen markets, delivering the Sage Intacct internationalisation, starting with Australia and the UK&I;
- Enhancing the service fabric, the architectural 'glue' of Sage Business Cloud, which breaks down single tiered software applications into a collection of separate web services, to improve user experience, migration pathways, micro-services and connectivity of ecosystem.

Internationalisation of Sage Intacct

The acquisition of Sage Intacct was made in FY17 and has continued to show strong momentum as it is integrated within the Group. Sage Intacct currently operates in the USA and Canada, driving ARR of around £100m, growing at 30%. Sage Intacct is a truly cloud native, SaaS solution where the processes, systems, technology and cloud expertise within the business are optimised to drive significant new customer acquisition at scale in the cloud. In 2019 the Group will commence the programme to launch Sage Intacct into Australia and the UK&I, with significant market opportunity in these geographies, with plans to launch into other major regions over the coming years. This move is a significant step forward in Sage's strategy to drive new customer acquisition and migrate existing customers at scale, in the cloud, and will leverage Sage Intacct's highly effective business model as a key component of Sage's SaaS engine.

2. Investment in best-in-class SaaS systems and tools

Sage is investing in systems to enable an end-to-end view of the customer, which improve the quality of data, allowing Sage more insight and improving the ability to sell to and support customers at more efficient levels. Sage will leverage the existing technology assets and experience of Sage Intacct, Sage People and Sage Enterprise Management to accelerate deployment across the business during FY19 and beyond.

Customer service is a major competitive differentiator for Sage. In order to further enhance this capability, digitisation of this function has been on-going, reducing wait times and improving customer experience. From 5% digital service in FY16, 80% of contact now has a digitally-enhanced element, reducing call wait times by 26% but increasing overall interactions with customers. By investing further in modernising systems, the business can further improve this service, providing 24/7 customer support, leveraging our global presence to build deeper customer relationships, increasing up-sell potential and creating a more efficient cost to serve.

Improving colleague experience and training colleagues on customer success is essential in a SaaS business. In FY18, the UK&I team successfully implemented the 'Perform' approach, training its renewals teams to transform their approach to customer success, leading to an improvement in retention rates in the UK&I, a 70% increase in productivity and a 22% reduction in the number of related Sage invoices outstanding after 30 days. On an investment of £1.3m, the project had a seven-month payback period and generating annualised returns of £2.4m. Sage plans to invest in rolling out similar projects to other geographies in FY19, with similar expected payback period and returns expected.

3. Accelerating the Sage Business Cloud migration strategy and product portfolio simplification

In FY18 the Group delivered Sage Business Cloud revenue of £377m, driven by cloud native and cloud connected products. Based on a review of existing products and roadmaps, a further £1.1bn of Sage's revenue base today comes from customers using products with a clear pathway to the Sage Business Cloud. This combined revenue base of £1.5bn grows faster than the business as a whole at 8% total organic and 8% recurring in FY18 and has higher recurring and subscription penetration of 82% and 51%, respectively. Execution on this migration strategy and attracting new customers through Sage Business Cloud will be management's primary operational focus for FY19 and beyond.

The remaining £354m revenue comprises customers using products for which management does not envisage a path to Sage Business Cloud, either because the product addresses a segment outside Sage's core focus, or due to the complexity and expense involved in a migration. A significant number of these products have strong brands, market position and commercial success and Sage intends to identify value creation paths for these products.

	FY18 revenue	FY17 revenue	Change
Cloud native	£144m	£107m	35%
Cloud connected	£233m	£128m	82%

Sage Business Cloud	**£377m**	**£235m**	**61%**
Products to migrate to Sage Business Cloud	£1,087m	£1,115m	(2%)
Future Sage Business Cloud portfolio	**£1,465m**	**£1,350m**	**8%**
Other	£354m	£352m	0%
Total organic revenue	**£1,819m**	**£1,703m**	**7%**

Management anticipates that this portfolio simplification will allow a sharpened focus on driving new customer acquisition and migration onto the Sage Business Cloud, which will enable Sage to sustainably accelerate recurring revenue growth and increase the efficiency of capital allocation.

Capital allocation

Sage will continue to invest and accelerate the execution of the strategy, with bolt-on acquisitions of complementary technology and partnerships to enhance Sage Business Cloud. In line with focusing on core competences within the business as set out above, Sage will also consider disposing of non-core assets, as it has done with Sage Payment Solutions, disposed of in August 2017, and Sage Payroll Solutions, the US-based payroll outsourcing services business, currently held for sale.

Acquisitions and disposals are always subject to stringent financial criteria. Sage is committed to maintaining rigorous financial discipline and delivering shareholder returns. Group return on capital employed (ROCE) at September 2018 is 23%, with net debt : EBITDA leverage of 1.2x, well within the corridor of 1-2x. The full year ordinary dividend has increased by 7% in FY18 to 16.50p, with a policy to maintaining the dividend in real terms going forward.

Asset held for sale

The Group today announces that it is actively marketing and intends to dispose of Sage Payroll Solutions, its US-based payroll outsourcing services business, and as a result, this asset is now treated as held for sale. The reported revenue for the year ended 30 September 2018 for this asset was £38m with operating loss of £1m.

Summary

Sage has shown stronger performance in H2 18 and has sharpened its focus on creating a great SaaS business, in the cloud and on subscription. Management has identified strategic priorities for FY19 that will continue to focus on this transition. The increased investment outlined will drive a sustainable acceleration in recurring revenue growth, underpinned by strong free cashflow, whilst enabling an efficient return on investment.

Financial review

Group performance

Sage achieved organic revenue growth of 6.8% (FY 17: 7.8%) and an underlying operating profit margin of 27.2% (FY17: 27.3%). Recurring revenue growth of 6.7% (FY 17: 10.4%), includes software subscription growth of 25.2% (FY17: 30.9%).

The organic definition neutralises the impact of foreign currency fluctuations and includes the contributions of acquired businesses from the beginning of the financial year following their year of acquisition. Adjustments have been made to the comparative period to present prior period acquired businesses as if these had been part of the Group throughout the entire prior period. The organic definition also excludes the contributions from discontinued operations, disposals, assets held for sale and acquired businesses in the year of acquisition. The underlying definition neutralises the impact of foreign currency fluctuations but includes the contribution from discontinued operations, disposals, assets held for sale of standalone businesses and current and prior period acquisitions. A reconciliation of underlying operating profit to statutory operating profit is shown on page 15.

Statutory figures below are based on continuing operations, including the impacts of acquisitions and disposals but excluding discontinued operations.

Revenue

	STATUTORY			**ORGANIC**		
	FY18	**FY17**	**Change**	**FY18**	**FY17**	**Change**
Northern Europe	£380m	£368m	**3.3%**	£381m	£373m	**2.5%**
Central & Southern Europe	£625m	£580m	**7.7%**	£625m	£587m	**6.5%**
North America	£574m	£492m	**16.7%**	£546m	£489m	**11.6%**
International	£267m	£275m	**(3.0%)**	£267m	£254m	**4.7%**
Group	**£1,846m**	**£1,715m**	**7.6%**	**£1,819m**	**£1,703m**	**6.8%**

Operating profit

	STATUTORY			**UNDERLYING**		
	FY18	**FY17**	**Change**	**FY18**	**FY17**	**Change**
Group	£427m	£348m	**22.7%**	£504m	£490m	**2.9%**
Margin	23.1%	20.3%	**2.8%**	27.2%	27.3%	**(0.1%)**

Statutory operating profit is stated after recurring costs relating to amortisation of acquisition related intangible assets and other M&A activity related charges and non-recurring costs for provisions and settlement of legal disputes and structural redundancies in FY18. FY17 statutory operating profit is also stated after non-recurring costs incurred relating to business transformation in FY17.

Revenue mix

Segmental reporting

	RECURRING REVENUE			PROCESSING REVENUE			SSRS REVENUE		
ORGANIC	**FY18**	**FY17**	**Change**	**FY18**	**FY17**	**Change**	**FY18**	**FY17**	**Change**
Northern Europe	£298m	£294m	**1.6%**	£39m	£37m	**4.0%**	£44m	£42m	**7.2%**
Central & Southern Europe	£475m	£455m	**4.4%**	-	-	**-**	£150m	£132m	**13.9%**
Total Europe	£773m	£749m	**3.3%**	£39m	£37m	**4.0%**	£194m	£174m	**12.3%**
North America	£471m	£417m	**12.9%**	£1m	£1m	**(2.4%)**	£74m	£71m	**4.0%**
International	£197m	£186m	**6.2%**	£15m	£13m	**13.0%**	£55m	£55m	**(2.5%)**
Group	£1,441m	£1,352m	**6.7%**	£55m	£51m	**6.2%**	£323m	£300m	**7.6%**
% of total organic revenue	**79%**	**79%**	**-%**	**3%**	**3%**	**-%**	**18%**	**18%**	**-%**

Recurring revenue

Sage delivered recurring revenue growth of 7% (FY17: 10%), driven by the increase in software subscription revenue of 25% (FY17: 31%), as the business transitions to a subscription model. Recurring revenue represents 79% of organic revenue (FY17: 79%) and software subscription penetration is now 46% of total revenue (FY17: 39%).

Processing revenue

Processing revenue growth of 6% (FY17: 1%) reflects growth in payments processing in both Northern Europe and Africa.

SSRS revenue

SSRS revenue grew by 8% (FY17: decline of 1%) due to strong performance in professional services and training.

Performance – European regions

ORGANIC REVENUE GROWTH	**FY18**	**FY17**
Northern Europe	**+2%**	**+8%**
Central Europe	+10%	+12%
France	+3%	+1%
Iberia	+9%	+10%
Central & Southern Europe	**+7%**	**+6%**
Total Europe	**+5%**	**+7%**

Revenue in the European regions grew by 5% overall in FY18 (FY17: 7%). Within Europe, growth in Northern Europe was impacted by inconsistent sales execution in driving recurring revenue growth in H1 18. Central Europe (Germany, Switzerland and Poland) delivered double digit growth. Iberia (Spain and Portugal) also delivered strong growth of 9%, whilst growth in France of 3% shows encouraging signs of recovery in the region.

Recurring revenue in Europe grew by 3% (FY17: 8%), reflecting strong growth in Central Europe, offset by weaker performance in Northern Europe and Southern Europe. Software subscription revenue grew by 18% (FY17: 20%), now representing 42% of total revenue (FY17: 37%).

Processing revenue in Europe grew by 4% (FY17: flat), reflecting growth in payments processing through Sage Pay in Northern Europe.

SSRS revenue grew by 12% (FY17: 5%) reflecting strong performance in professional services and training.

Northern Europe

UK&I – foundations laid in H2 18 for FY19

UK&I revenue grew by 2% (FY17: 8%) for the year, with recurring revenue growth of 2% (FY17: 10%). Software subscription revenue growth was 26% (FY17: 26%) now representing 47% of total revenue in the UK&I (FY17: 38%).

Following flat performance in H1 18 due to inconsistent execution, recurring revenue showed sequential recovery each month in H2 18, exiting with 7% growth in September 2018. Progress in H2 18 is due to success in migrating Sage 50 customers to Sage 50cloud, with more than five times as many contracts signed in H2 18 than in H1 18 and half the Sage 50 base now converted, driving year-on-year growth in cloud connected revenue of £21m (71% increase).

Reactivating the off-plan customer base was a further strategic priority during the period, with over 12,500 customers reactivated in the UK&I, with an average annualised contract value (ACV) of £650.

Sage People, acquired in FY17, continued to show strong momentum in the year with revenue growth of £6m (75% increase).

SSRS growth of 7% in the UK&I reflects strong growth in professional services.

Processing growth of 4% was driven by volume in chip and pin transactions through Sage Pay.

Focus for FY19 in UK&I is to build on the recurring revenue foundations laid in the latter part of FY18, with further growth anticipated through the continued migration to Sage 50cloud and the introduction of Sage 200cloud in FY19.

Central and Southern Europe

France – recovery well underway

France revenue grew by 3% (FY17: 1%), with recurring revenue growth of 3% (FY17: 1%). The region continues to show strong signs of recovery with sequential growth each quarter in both organic and recurring revenue.

Enterprise Management revenue, of which nearly half is generated in France, grew at 12% in the year. The cloud connected strategy is also showing strong momentum, with Sage 50cloud and Sage 200cloud each growing by triple digits (growth of £8m and £18m respectively) and now contributing 10% of the region's revenue (FY17: 1%), following strong endorsement from the partner channel on Sage 200cloud.

France has high recurring revenue and software subscription revenue penetration rates of 85% and 59% respectively and in FY19 management will focus on continuing the recurring revenue momentum achieved in FY18 and drive further growth from the cloud connected strategy.

Iberia – continuing strong performance

Organic revenue growth of 9% (FY17: 10%) was underpinned by recurring revenue growth of 4% and SSRS revenue growth of 25%.

Following its roll out late in FY17, Sage 200cloud has proved popular, now contributing more than 10% of Spain's revenue.

SSRS growth of 25% is due to strong performance in professional services and training in Spain, associated with Sage 200cloud.

Portugal was the Group's strongest performing country with 17% organic growth and 18% recurring revenue growth.

Central Europe – double digit organic revenue growth

Central Europe delivered strong growth of 10% (FY17: 12%), underpinned by recurring revenue growth of 8% and SSRS revenue growth of 13%.

In Germany, organic revenue grew by 10%, with Sage 200, also growing at 10%, delivered by a strong performance in the partner channel. SSRS growth has been driven by success in professional services associated with Sage 200.

In the smaller Central European countries, Poland grew at 11% and Switzerland delivered growth of 6%.

Performance – North American region

ORGANIC REVENUE GROWTH	FY18	FY17
USA	+8%	+5%
Sage Intacct	+26%	+31%
Canada	+12%	+10%
North America	**+12%**	**+9%**

Strong growth of 12% (FY 17: 9%) in North America, including Sage Intacct, was driven by 13% growth in recurring revenue (FY17: 14%), underpinned by software subscription growth of 51% (FY17: 75%): software subscription revenue is now 48% of total revenue (FY17: 35%).

Processing revenue excluding the performance of Sage Payroll Solutions (now held for sale) declined by 2%, whilst SSRS revenue grew at 4% (FY17: 11% decline), following a strong end to the year from Enterprise Management.

USA (excluding Sage Intacct) – cloud connected migrations driving strong growth

Strong growth of 8% (FY 17: 5%) in USA, excluding Sage Intacct, was driven by 9% growth in recurring revenue (FY17: 9%).

Performance in the USA was driven by the successful migration of customers from Sage 50 and Sage 200 to the cloud connected versions of these products, with well over half of the on-premise customers of both solutions now migrated. Cloud connected revenue grew by £46m (82% increase), driving software subscription growth of 77% in the country.

SSRS revenue growth was 5%, reflecting growth in Enterprise Management and professional services and training, offset by a decline in other licences. Enterprise Management grew at 15% following a record quarter in Q4, winning a contract with a total contract value of £2.3m.

Sage Intacct – showing continuing momentum

Sage Intacct has continued to grow strongly, with organic revenue growth of 26% (FY17: 31%), as management continues the carefully sequenced integration of this acquisition. Organic revenue growth was underpinned by recurring revenue growth of 29% and ARR growth of 30%, offset by 2% decline in professional services and training.

Canada – double digit organic and recurring revenue growth

In Canada, both organic and recurring revenue delivered double digit growth of 12% and 14% respectively. Over 75% of Sage 200 customers have been migrated to Sage 200cloud, driving growth in the year of £7m (77% increase), whilst new customer acquisition was achieved through Enterprise Management growth of £3m (114% increase).

In North America, the focus in FY19 is continuing the momentum and value uplift through the Sage 50 and Sage 200 migrations to cloud connected solutions, whilst continuing to attract new customers through Sage Intacct, Sage People and Enterprise Management.

Performance – International region

ORGANIC REVENUE GROWTH	**FY18**	**FY17**
Africa and Middle East	+5%	+12%
Latin America	+3%	+12%
Australia & Asia	+6%	+3%
International	**+5%**	**+10%**

Organic revenue in the International region grew by 5% in FY18 (FY17: 10%), with recurring revenue growth of 6% (FY17: 15%), processing revenue growth of 13% (FY17: 7%) and SSRS decline of 3% (FY17: decline of 4%). Software subscription revenue in International is now 59% of total revenue (FY17: 56%).

Performance in the region has been mixed with strong growth in Australia, offsetting the slight decline in Asia and growth in Africa offsetting weaker performance in the Middle East, whilst growth in Latin America was below Group growth rates.

Africa and Middle East – recurring revenue a highlight

Growth in Africa Middle East of 5% (FY17: 12%) reflects growth in Africa of 6%, offset by a decline in Middle East of 25%.

In Africa, double digit recurring revenue growth reflects continuing momentum of Sage Accounting, which grew by £3m (50% increase). SSRS decline of 8% is driven by weak Enterprise Management sales reflecting challenging conditions in the region.

The decline in Middle East revenue is also driven by under-performance in Enterprise Management in the region.

Latin America – turbulent economic conditions

Revenue in Latin America grew at 3% (FY17: growth of 12%), underpinned by recurring revenue growth of 2% (FY17: 17%).

Due to the turbulent economic conditions in the region, since the end of FY17 management has been focused on driving growth through high quality customers, where debt collection is less of a risk. The underlying performance in the region remains robust with Sage Accounting growth of £1m (35% increase) in FY18 and H2 18 organic revenue growth of 8%.

SSRS growth of 7% reflects strong growth in learning services.

Australia and Asia - Strength in Australia offset by Asia

In Australia, strong revenue growth of 11% (FY17: 7%) is underpinned by recurring revenue growth of 6% (FY17: 9%) and SSRS growth of 36% (FY17: 2% decline), led by strong performance from both Sage 50 and Payroll.

Asia revenue (accounting for 1% of total group revenue) declined by 5% in the year (FY17: 6%) due to local macroeconomic challenges in this region.

Statutory financial review

	FY18	FY17

ORGANIC TO STATUTORY RECONCILIATIONS	Revenue	Operating profit	Margin	Revenue	Operating profit	Margin
Organic	£1,819m	£505m	27.8%	£1,703m		
Organic adjustments[6]	£38m	(£1m)		(£20m)		
Underlying - continuing	**£1,857m**	**£504m**	**27.2%**	**£1,683m**	**£463m**	**27.5%**
Discontinued operations	-	-		£112m	£27m	
Underlying	**£1,857m**	**£504m**	**27.2%**	**£1,795m**	**£490m**	**27.3%**
Discontinued operations (as reported)	-	-		(£119m)	(£27m)	
Impact of foreign exchange[7]	-	-		£44m	£4m	
Underlying (as reported) – Continuing	**£1,857m**	**£504m**	**27.2%**	**£1,720m**	**£467m**	**27.2%**
Recurring items[8]	(£11m)	(£67m)		(£5m)	(£49m)	
Non-recurring items[9]	-	(£10m)			(£70m)	
Statutory	**£1,846m**	**£427m**	**23.1%**	**£1,715m**	**£348m**	**20.3%**

Revenue

Statutory revenue grew by 8% to £1,846m (FY17: £1,715m), reflecting organic growth, the full year impact of prior period acquisitions and foreign exchange movements experienced throughout the year. The impact of foreign exchange of £44m reflects a currency headwind during the period.

Operating profit

Underlying (continuing) operating profit increased by 9% to £504m and statutory operating profit increased by 23% to £427m. The improvement in statutory operating profit margin of 2.8% reflects a net reduction in recurring and non-recurring items and the impact from changes in foreign exchange rates.

Adjustments between underlying and statutory operating profit

Non-recurring items relate to an exceptional charge of £9m and a £1m loss on disposal of a small, non-core asset. The exceptional charge consists of litigation costs of £4m relating to two specific one-off employment related matters, costs of £5m arising from the restructure of parts of the senior leadership team announced at the time of the interim results. Recurring items of £67m combined reflect £35m relating to amortisation of acquisition related intangible assets and £21m M&A activity-related charges. A further £11m relates to an adjustment applied to acquired deferred income. Both recurring and non-recurring items, £77m combined, have been excluded from the underlying operating profit of £504m.

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Net finance cost

The statutory net finance cost for the period was £29m (FY17: £18m) and the underlying net finance cost was £29m (FY17: £25m). The difference between underlying and statutory net finance costs in the prior year was driven by a gain of £7m from a valuation adjustment on financial assets.

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[6] Organic adjustments are as per note 2 of the financial statements.

[7] Impact of retranslating FY17 results at FY18 average rates.

[8] Recurring items comprise amortisation of acquired intangible assets, M&A activity-related items (including adjustments to acquired deferred income) and fair value adjustments.

[9] Non-recurring items comprise items that management judge to be one-off or non-operational including business transformation costs in FY17.

Taxation

The statutory income tax expense for FY18 was £103m (FY17: £85m[10]). The effective tax rate on both underlying and statutory profit for FY18 is 26% (FY17: 26% underlying, 25% statutory). The underlying rate does not differ from the statutory tax rate as the items included as non-recurring have been subject to tax at similar rates to the group average rate of tax.

Earnings per share

Underlying basic earnings per share increased by 3% to 32.51p (FY17: 31.45p). Adjusted for transactions, underlying earnings per share increased by 14% reflecting a 5% impact from normalisation of the operating profit for the pre-acquisition period of the acquired businesses based on the FY17 operating profit margin achieved during the post-acquisition period and a 6% impact from the disposal of the North American Payments business. Statutory basic earnings (continuing operations) per share decreased by 2% to 27.21p (FY17: 27.80p) due to increased operating profit and net reduction in adjusting items following completion of the business transformation, offset by increase in recurring charges for the acquisitions of Sage Intacct and Sage People in FY17.

Cash flow and net debt

CASH FLOW	FY18	FY17
Underlying operating profit	**£504m**	**£490m**
Exchange rate translation movements	-	£6m

[10] Continuing operations.

Underlying operating profit (as reported)	**£504m**	**£496m**
Non-cash items	(£6m)	(£1m)
Depreciation/amortisation/impairment/profit on disposal	£34m	£35m
Share-based payments	£5m	£6m
Net changes in working capital	(£10m)	(£14m)
Net capital expenditure	(£45m)	(£52m)
Underlying cash flow from operating activities	**£482m**	**£470m**
Non-recurring cash items	(£35m)	(£72m)
Net interest paid	(£26m)	(£22m)
Income tax paid	(£64m)	(£102m)
Statutory P&L foreign exchange movements	(£1m)	£2m
Free cash flow	**£356m**	**£276m**

CASH FLOW	**FY18**	**FY17**
Statutory cash generated from operating activities	**£487m**	**£428m**
Recurring and Non-recurring items	£37m	£94m
Net capital expenditure	(£45m)	(£52m)
Balance sheet adjustments	£2m	£2m
Eliminate exchange rate translation movements	£1m	(£2m)
Underlying cash generated from operating activities	**£482m**	**£470m**
Underlying cash conversion	**96%**	**95%**

The Group remains highly cash generative with underlying cash flows from operating activities of £482m, which represents underlying cash conversion of 96%, increasing from 95% in FY17, due to strong working capital management, although this was slightly lower than the H1 18 cash conversion of 99%, due to the value of Enterprise Management contracts signed in September 2018, with longer associated payment terms.

A total of £172m was returned to shareholders through ordinary dividends paid. Net debt stood at £668m at 30 September 2018 (30 September 2017: £813m). The decrease is attributable to strong free cash flow of £356m, offset principally by M&A costs of £21m (including fees and acquired IP assets), ordinary dividends of £172m and an FX translation loss of £20m.

Debt facilities

The Group's syndicated bank multi-currency Revolving Credit Facility (RCF), was renewed in February 2018 and now expires in February 2023 (with further extension options of 1 or 2 years) with facility levels of £686m (US$719m and £135m tranches). At 30 September 2018, £418m (30 September 2017: £318m) of the RCF was drawn. Existing RCF drawings were used principally to fund the acquisitions completed in FY17 and to refinance maturing debt in FY18. Specifically, the term loan of $150m arranged in July 2017 to partially fund the Intacct acquisition was refinanced using drawing from the RCF on 25 July 2018.

Total USPP loan notes at 30 September 2018 were £497m (US$550m and EUR€85m), (30 September 2017: £523m (US$600m and €85m)). Approximately £36m (US$50m) of USPP notes matured in May 2018 and were repaid using funds from the RCF.

Foreign exchange

The Group does not hedge foreign currency profit and loss translation exposures and the statutory results are therefore impacted by movements in exchange rates.

The average rates used to translate the consolidated income statement and to neutralise foreign exchange in prior year underlying and organic figures are as follows:

AVERAGE EXCHANGE RATES (EQUAL TO GBP)	FY18	FY17	Change
Euro (€)	1.13	1.15	(2%)
US Dollar ($)	1.35	1.27	6%
South African Rand (ZAR)	17.56	16.95	4%
Australian Dollar (A$)	1.77	1.66	6%
Brazilian Real (R$)	4.72	4.06	16%

Capital structure and dividend

With consistent and strong cash flows, the Group retains considerable financial flexibility going forward. The Board's main strategic policy remains an acceleration of growth, primarily recurring, supported by targeted bolt-on acquisitions. The growth underpins the Board's sustainable, progressive dividend policy. Consistent with this policy, the Board is proposing a 7% increase in the total ordinary dividend per share for the year to 16.50p per share (FY17: 15.42p per share).

Appendix I – Key Performance Indicators ("KPIs") and other measures

	FY18	FY17

STRATEGIC KPIs	KPI DESCRIPTION		
Contract renewal rate by value	The ARR from renewals, migrations, upsell and cross-sell of active customers at the start of the year, divided by the opening ARR for the year.	101%	N/A
Sage Business Cloud annualised recurring revenue	Sage Business Cloud ARR is the ARR of cloud native and cloud connected revenue in the last month of the reporting period.	£434m	£288m
Software subscription penetration	Software subscription penetration is the amount of organic subscription revenue as a percentage of total organic revenue.	46%	39%
G&A%	Our G&A expense for the period expressed as a percentage of our total organic revenue for the period.	12.9%	13.8%
Foundation Days	The numbers of days colleagues volunteer to work with charitable causes.	24,000	23,000

FINANCIAL DRIVERS	KPI DESCRIPTION	FY18	FY17
Organic revenue growth	The percentage growth in organic revenue period to period (see Appendix II for definition of Organic)	6.8%	6.6%
Underlying operating profit margin	Underlying operating profit (see Appendix II for definition of Underlying) as a percentage of revenue	27.2%	27.3%
Organic operating profit margin	Organic operating profit (see Appendix II for definition of Organic) as a percentage of revenue	27.8%	N/A
Underlying basic EPS growth	Underlying basic EPS is underlying profit after tax (see Appendix II for definition of Underlying) divided by the weighted average number of ordinary shares in issue during the period, excluding those held as treasury shares.	3.4%	3.5%
Adjusted EPS growth	The growth in Adjusted EPS (see Appendix II for definition)	14.2%	N/A
Underlying cash conversion	Underlying cash conversion is underlying cash flow from operating activities divided by underlying operating profit (see Appendix II for definitions).	96%	95%
Free cash flow as a % of revenue	Free cash flow (see Appendix II for definition) as a % of underlying revenue	19%	15%
Net debt leverage	The net value of cash less borrowings expressed as a multiple of rolling 12-month EBITDA.	1.2:1	1.6:1

Appendix II – Non-GAAP measures

MEASURE	DESCRIPTION	WHY WE USE IT
Underlying	Underlying measures are adjusted to exclude items which would distort the understanding of the performance for the year or comparability between periods:	Underlying measures allow management and investors to compare performance without the potentially distorting effects of foreign exchange movements, one-off items or non-operational items.

MEASURE	DESCRIPTION	WHY WE USE IT
	- Recurring items purchase price adjustments including amortisation of acquired intangible assets and adjustments made to reduce deferred income arising on acquisitions, acquisition-related items, FX on intercompany balances and fair value adjustments; and - Non-recurring items that management judge to be one-off or non-operational such as gains and losses on the disposal of assets, impairment charges and reversals, and restructuring related costs. All prior period underlying measures (revenue and profit) are retranslated at the current year exchange rates to neutralise the effect of currency fluctuations.	By including part-period contributions from acquisitions, discontinued operations, disposals and assets held for sale of standalone businesses in the current and/or prior periods, the impact of M&A decisions on earnings per share growth can be evaluated.
Organic	In addition to the adjustments made for underlying measures, organic measures exclude the contribution from discontinued operations, disposals and assets held for sale of standalone businesses in the current and prior period and include acquired businesses from the beginning of the financial year following their year of acquisition. Adjustments are made to the comparative period to present acquired businesses as if these had been part of the Group throughout the prior period. Acquisitions and disposals which occurred close to the start of the opening comparative period where the contribution impact would be immaterial are not adjusted. Please note that organic operating profit margin as reported is not necessarily comparable from period to period.	Organic measures allow management and investors to understand the like-for-like revenue and current period margin performance of the continuing business.
Underlying cash flow from operating activities	Underlying cash flow from operating activities is underlying operating profit adjusted for underlying non-cash items, net capex (excluding business combinations and similar items) and changes in working capital.	To calculate underlying cash conversion which informs management and investors about the cash operating cycle of the business and how efficiently operating profit is converted into cash
Free cash flow	Underlying cash flow from operating activities plus non-recurring cash items, less cash interest and cash tax.	As an indicator of the ability of the company to turn revenue into cash and therefore the quality of revenue.
Underlying (as reported)	Where prior period underlying measures are included without retranslation at current period exchange rates, they are labelled as underlying (as reported).	This measure is used to report comparative figures for external reporting purposes where it would not be appropriate to retranslate. For instance, on the face of primary financial statements.
EBITDA	EBITDA is defined as underlying operating profit excluding depreciation, amortisation and share based payments.	As a measure of operating profit excluding major non-cash items. EBITDA is used to calculate our net debt leverage.
Adjusted EPS	The Adjusted EPS is the underlying basic EPS adjusted for the impact of significant acquisitions and disposals by excluding current period acquisitions and current and prior period disposals and by including prior year acquisitions in the comparable period based on the margin achieved by the acquired business in the prior year for the post-acquisition period.	The Adjusted EPS measure allows management and investors to compare performance without the distorting effects arising from significant acquisitions and disposals.
Annualised recurring revenue (“ARR”)	Annualised recurring revenue (“ARR”) is the normalised reported recurring revenue in the last month of the reporting period, adjusted consistently period to period, multiplied by twelve. Adjustments to normalise reported recurring revenue include those components that management has assessed should be excluded in order to ensure the measure reflects that part of the contracted revenue base which (subject to ongoing use and renewal) can reasonably be expected to repeat in future periods (such as non-refundable contract sign-up fees).	As a forward looking revenue measure that represents the annualised value of that part of the current revenue base will be carried into future periods. We will start to disclosure more ARR measures during the course of FY19 as it is a good indicator of the momentum of the business.
Annual contract value	Annual contact value (ACV) is the value of recurring and renewable bookings that will be generated over a twelve-month period under a given contract or contracts.	As a measure of new recurring bookings that can be compared across different contract durations (monthly, annual, multi-year) and types (maintenance and subscription)

MEASURE	DESCRIPTION	WHY WE USE IT
Return on Capital Employed	ROCE is calculated as underlying operating profit reduced by the amortisation of acquired intangibles, divided by Capital Employed.	As an indicator of the current period financial return on the capital invested in the company. ROCE will be used as an underpin to the ARR element of the FY19 PSP awards
Capital Employed	Capital Employed is calculated as the average (of the opening and closing balance for the period) total net assets, excluding net debt, provisions for non-recurring costs and tax assets or liabilities	As the basis for calculating ROCE

Revenue Type	DESCRIPTION
Recurring revenue Subscription contracts Maintenance and support contracts	Recurring revenue is revenue earned from customers for the provision of a good or service, where risks and rewards are transferred to the customer over the term of a contract, with the customer being unable to continue to benefit from the full functionality of the good or service without ongoing payments. Subscription revenue is revenue earned from customers for the provision of a good or service, where the risk and rewards are transferred to the customer over the term of a contract. In the event that the customer stops paying, they lose the legal right to use the software and the Company has the ability to restrict the use of the product or service. (Also known as 'Pay to play'). Subscription revenue and maintenance and support revenue are recognised on a straight-line basis over the term of the contract (including non-specified upgrades, when included). Revenue relating to future periods is classified as deferred income on the balance sheet to reflect the transfer of risk and reward.
Software and software-related services Perpetual software licences Upgrades to perpetual licences Professional services Training Hardware and stationery	Perpetual software licences and specified upgrades revenue are recognised when the significant risks and rewards of ownership relating to the licence have been transferred and it is probable that the economic benefits associated with the transaction will flow to the Group. This is when the goods have left the warehouse to be shipped to the customer or when electronic delivery has taken place. Other product revenue (which includes hardware and stationery) is recognised as the products are shipped to the customer. Other services revenue (which includes the sale of professional services and training) is recognised when delivered, or by reference to the stage of completion of the transaction at the end of the reporting period. This assessment is made by comparing the proportion of contract costs incurred to date to the total expected costs to completion.
Processing revenue Payment processing services Payroll processing services	Processing revenue is revenue earned from customers for the processing of payments or where Sage colleagues process our customers' payroll. Processing revenue is recognised at the point that the service is rendered on a per transaction basis.

Consolidated income statement
For the year ended 30 September 2018

	Note	**Underlying 2018**	**Adjustments* 2018**	**Statutory 2018**	Underlying as reported 2017	Adjustments* 2017	Statutory 2017
		£m	**£m**	**£m**	£m	£m	£m
Revenue	2	**1,857**	**(11)**	**1,846**	1,720	(5)	1,715
Cost of sales		**(130)**	**–**	**(130)**	(114)	–	(114)
Gross profit		**1,727**	**(11)**	**1,716**	1,606	(5)	1,601
Selling and administrative expenses		**(1,223)**	**(66)**	**(1,289)**	(1,139)	(114)	(1,253)
Operating profit	2	**504**	**(77)**	**427**	467	(119)	348
Share of loss of an associate		**–**	**–**	**–**	–	(1)	(1)
Gain on remeasurement of existing investment in an associate		**–**	**–**	**–**	–	13	13
Finance income		**4**	**1**	**5**	2	8	10
Finance costs		**(33)**	**(1)**	**(34)**	(27)	(1)	(28)
Profit before income tax		**475**	**(77)**	**398**	442	(100)	342
Income tax expense	4	**(123)**	**20**	**(103)**	(115)	30	(85)
Profit for the year – continuing operations		**352**	**(57)**	**295**	327	(70)	257
Profit on discontinued operations	11	**–**	**–**	**–**	18	25	43
Profit for the year		**352**	**(57)**	**295**	345	(45)	300

* Adjustments are detailed in note 3.

Earnings per share attributable to the owners of the parent (pence)							
From continuing operations							
Basic	6	**32.51p**		**27.21p**	30.28p		23.86p
Diluted	6	**32.35p**		**27.07p**	30.18p		23.78p
From continuing and discontinued operations							
Basic	6	**32.51p**		**27.21p**	31.90p		27.80p
Diluted	6	**32.35p**		**27.07p**	31.79p		27.71p

Consolidated statement of comprehensive income
For the year ended 30 September 2018

	2018 £m	2017 £m
Profit for the year	**295**	300
Other comprehensive income/(expense)		
Items that will not be reclassified to profit or loss		
Actuarial gain on post-employment benefit obligations	**–**	4
Deferred tax charge on actuarial loss on post-employment benefit obligations	**–**	(1)
	–	3
Items that may be reclassified to profit or loss		
Deferred tax credit on foreign currency movements	**–**	2
Gain on available-for-sale fixed asset investment	**1**	–
Exchange differences on translating foreign operations	**15**	(26)
Exchange differences recycled through income statement on sale of foreign operations	**–**	(32)
	16	(56)
Other comprehensive income/(expense) for the year, net of tax	**16**	(53)
Total comprehensive income for the year	**311**	247

The notes on pages 27 to 47 form an integral part of this condensed consolidated yearly report.

Consolidated balance sheet
As at 30 September 2018

	Note	2018 £m	2017 Restated* £m
Non-current assets			
Goodwill	7	**2,008**	2,002
Other intangible assets	7	**260**	274
Property, plant and equipment	7	**129**	133
Fixed asset investment		**17**	15
Other financial assets		**3**	2
Deferred income tax assets		**51**	61
		2,468	2,487
Current assets			
Inventories		**1**	3
Trade and other receivables		**459**	466
Current income tax asset		**4**	14
Cash and cash equivalents (excluding bank overdrafts)	10	**272**	231
Assets classified as held for sale	11	**113**	1
		849	715
Total assets		**3,317**	3,202
Current liabilities			
Trade and other payables		**(249)**	(337)
Current income tax liabilities		**(39)**	(18)
Borrowings		**(8)**	(55)
Provisions		**(26)**	(37)
Deferred income		**(620)**	(585)
Liabilities classified as held for sale	11	**(63)**	(1)
		(1,005)	(1,033)
Non-current liabilities			
Borrowings		**(913)**	(914)
Post-employment benefits		**(22)**	(22)
Deferred income tax liabilities		**(25)**	(25)
Provisions		**(11)**	(31)
Trade and other payables		**(8)**	(5)
Deferred income		**(6)**	(4)
		(985)	(1,001)
Total liabilities		**(1,990)**	(2,034)
Net assets		**1,327**	1,168
Equity attributable to owners of the parent			
Ordinary shares	9	**12**	12
Share premium	9	**548**	548
Other reserves		**146**	131
Retained earnings		**621**	477
Total equity		**1,327**	1,168

* 2017 restated for finalisation of the fair value of assets acquired and liabilities assumed in the acquisition of Sage Intacct, completed in 2017 (see notes 1 and 11).

Consolidated statement of changes in equity
For the year ended 30 September 2018

	Attributable to owners of the parent				
	Ordinary shares £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
At 1 October 2017	12	548	131	477	1,168
Profit for the year	–	–	–	295	295
Other comprehensive income/(expense)					
Exchange differences on translating foreign operations	–	–	15	–	15
Gain on available-for-sale fixed asset investment	–	–	–	1	1
Total comprehensive income for the year ended 30 September 2018	–	–	15	296	311
Transactions with owners					
Employee share option scheme:					
- Value of employee services, net of deferred tax	–	–	–	16	16
Proceeds from issuance of treasury shares	–	–	–	3	3
Dividends paid to owners of the parent	–	–	–	(171)	(171)
Total transactions with owners for the year ended 30 September 2018	–	–	–	(152)	(152)
At 30 September 2018	12	548	146	621	1,327

	Attributable to owners of the parent				
	Ordinary shares £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
At 1 October 2016	12	544	187	310	1,053
Profit for the year	–	–	–	300	300
Other comprehensive income/(expense)					
Exchange differences on translating foreign operations	–	–	(26)	–	(26)
Exchange differences recycled through income statement on sale of foreign operations	–	–	(32)	–	(32)
Deferred tax credit on foreign currency movements	–	–	2	–	2
Actuarial gain on post-employment benefit obligations	–	–	–	4	4
Deferred tax charge on actuarial loss on post-employment obligations	–	–	–	(1)	(1)
Total comprehensive income for the year ended 30 September 2017	–	–	(56)	303	247
Transactions with owners					
Employee share option scheme:					
- Proceeds from shares issued	–	4	–	–	4
- Value of employee services, net of deferred tax	–	–	–	9	9
- Value of employee services on acquisition	–	–	–	21	21
Purchase of treasury shares	–	–	–	(9)	(9)
Dividends paid to owners of the parent	–	–	–	(157)	(157)
Total transactions with owners for the year ended 30 September 2017	–	4	–	(136)	(132)
At 30 September 2017	12	548	131	477	1,168

Consolidated statement of cash flows
For the year ended 30 September 2018

	Note	**2018 £m**	2017 £m
Cash flows from operating activities			
Cash generated from continuing operations		**487**	403
Interest paid		**(30)**	(24)
Income tax paid		**(64)**	(102)
Operating cash flows generated from discontinued operations		**–**	25
Net cash generated from operating activities		**393**	302
Cash flows from investing activities			
Acquisitions of subsidiaries, net of cash acquired	11	**(8)**	(693)
Proceeds on settlement of debt investment		**–**	7
Purchases of intangible assets	7	**(36)**	(22)
Purchases of property, plant and equipment	7	**(20)**	(30)
Proceeds from sale of property, plant and equipment		**2**	–
Interest received		**4**	2
Disposal of discontinued operations	11	**–**	158
Net cash used in investing activities		**(58)**	(578)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	9	**–**	4
Proceeds from issuance of treasury shares		**3**	–
Purchase of treasury shares		**–**	(9)
Proceeds from borrowings		**330**	662
Repayments of borrowings		**(389)**	(275)
Movements in cash held on behalf of customers		**2**	5
Borrowing costs		**(3)**	(1)
Dividends paid to owners of the parent	5	**(171)**	(157)
Financing cash flows generated from discontinued operations		**–**	4
Net cash (used in)/generated from financing activities		**(228)**	233
Net increase/(decrease) in cash, cash equivalents and bank overdrafts (before exchange rate movement)		**107**	(43)
Effects of exchange rate movement	10	**2**	(4)
Net increase/(decrease) in cash, cash equivalents and bank overdrafts		**109**	(47)
Cash, cash equivalents and bank overdrafts at 1 October	10	**213**	260
Cash, cash equivalents and bank overdrafts at 30 September	10	**322**	213

Notes to the financial information
For the year ended 30 September 2018

1 Group accounting policies

General information
The Sage Group plc ("the Company") and its subsidiaries (together "the Group") is a leading global supplier of business management software to Small & Medium Businesses.

The financial information set out above does not constitute the Company's Statutory Accounts for the year ended 30 September 2018 or 2017, but is derived from those accounts. Statutory Accounts for the year ended 30 September 2017 have been delivered to the Registrar of Companies and those for 2018 will be delivered in December 2018. The auditors have reported on both sets of accounts; their reports were unqualified and did not contain statements under section 498 (2), (3) or (4) of the Companies Act 2006.

Whilst the financial information included in this announcement has been computed in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") and IFRS as issued by the International Accounting Standards Board ("IASB"), this announcement does not in itself contain sufficient information to comply with IFRSs. The financial information has been prepared on the basis of the accounting policies and critical accounting estimates and judgements as set out in the Annual Report & Accounts for 2018.

The Company is a limited liability company incorporated and domiciled in the UK. The address of its registered office is North Park, Newcastle upon Tyne, NE13 9AA. The Company is listed on the London Stock Exchange.

Basis of preparation
The consolidated financial statements of The Sage Group plc have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and IFRS as issued by the International Accounting Standards Board ("IASB"). IFRS as adopted by the EU differs in certain respects from IFRS as issued by the IASB. The differences have no impact on the Group's consolidated financial statements for the years presented. The consolidated financial statements have been prepared under the historical cost convention, except where adopted IFRS require an alternative treatment. The principal variations from the historical cost convention relate to derivative financial instruments which are measured at fair value through profit or loss.

The financial statements of the Group comprise the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared at the end of the reporting period. The accounting policies have been consistently applied across the Group. The Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity, which is usually from date of acquisition.

The prior year consolidated balance sheet and related notes have been restated for the finalisation of provisional amounts recognised in respect of the fair value of assets acquired and liabilities assumed related to the acquisition of Sage Intacct that completed on 3 August 2017. Details are set out in note 11.

Accounting policies
The accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 September 2018 as described in those annual financial statements.

Future accounting standards

The directors also considered the impact on the Group of new and revised accounting standards, interpretations or amendments. The following revised and new accounting standards, all of which have been adopted by the EU, may have a material impact on the Group. They are currently issued but not effective for the Group for the year ended 30 September 2018:

- IFRS 9 "Financial Instruments"
- IFRS 15 "Revenue from Contracts with Customers"
- IFRS 16 "Leases"

IFRS 9

IFRS 9 will be effective for the Group starting 1 October 2018 and will replace the current requirements of IAS 39 'Financial Instruments: Recognition and Measurement'. The main changes introduced by the new standard are new classification and measurement requirements for certain financial assets, a new expected loss model for the impairment of financial assets, revisions to the hedge accounting model and amendments to disclosures. The changes are generally to be applied retrospectively, but the standard allows an option not to restate comparatives.

Transition to IFRS 9 will have only a limited impact for the Group arising from the change in the impairment loss model applied to trade receivables. The Group will adopt the standard's simplified approach to provide for lifetime expected credit losses at the date of initial recognition. Currently credit losses are not recognised until there is an indicator of impairment. The Group will use a matrix approach to determine the provisions, with default rates assessed for each country in which the Group operates.

The Group has made the following elections on transition to IFRS 9:

- The Group will not restate comparatives and will recognise the cumulative impact of implementing the standard in equity at the date of transition;
- The Group will continue to apply the hedge accounting requirements of IAS 39 instead of those in IFRS 9; and
- The Group will classify its unquoted equity investment as at fair value through other comprehensive income. As a result, changes in fair value will continue to be recognised in the statement of other comprehensive income when they arise, but the cumulative gain or loss will not be reclassified to profit or loss when the investment is derecognised.

The impact to be recognised in equity by the Group on transition to IFRS 9 is a £6m reduction in net assets arising from an increase in the impairment provision against trade receivables. No material impact is expected from implementing IFRS 9 on the consolidated income statement or on the consolidated statement of cash flows.

IFRS 15

IFRS 15 is effective for the Group starting 1 October 2018. The new standard prescribes a principle-based approach to accounting for revenue arising from contracts with customers as well as additional reporting disclosures. The standard replaces all previous revenue-related requirements under IFRS. In order to implement the new standard, a project has been undertaken across Sage's markets to develop new revenue recognition policies and adjust relevant business processes and systems for data collection and reporting where necessary.

The standard permits a choice of two possible transition methods for the initial application of the new requirements: (1) retrospectively to each prior reporting period presented in accordance with IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), or (2) retrospectively with the cumulative effect of initially applying the standard recognised on the date of initial application, being 1 October 2018 for the Group (the "cumulative catch-up" approach). The Group will adopt the cumulative catch-up approach and the practical expedient to apply the new standard only to contracts that had not been completed by 1 October 2018. The cumulative effect of initial application will be recognised as an adjustment to the balance of retained earnings at 1 October 2018.

Differences between current accounting policies and IFRS 15
Several differences between the Group's current accounting policies and its IFRS 15 based policies have been identified. The most significant of these are as follows.

– *Unbundling of subscription software and related maintenance and support contracts for on-premise products*
IFRS 15 introduces a new concept of performance obligations. This requires changes to the way the transaction price is allocated to separately identifiable components of a bundle within a contract, which can impact the timing of recognising revenue. As a result, the revenue recognition pattern changes for certain on-premise subscription contracts, which combine the delivery of software and support services and the obligation to deliver, in the future, unspecified software upgrades under a maintenance contract. Under current policies, the Group recognises the entire price as revenue on a straight-line basis over the subscription term. Under IFRS 15, a portion of the transaction price will be recognised upon delivery of the initial software at the outset of the arrangement with the remainder recognised over the term of the contract due to the fact that these are deemed to be separate performance obligations.

– *Non-refundable contract sign up fees*
In some cases, customers pay a non-refundable contract sign-up fee when they enter into a new initial contract for a software product, and no equivalent fee is payable on subsequent renewals. As a result of paying the contract sign-up fee, the customer has an option to renew the contract and to pay a lower price on renewal than would have been the case had the contract sign-up fee not been paid. Under IFRS 15, the fee is considered to provide the customer with a material right that the customer would not receive without having entered into the initial contract. Therefore, the upfront fee is recognised as revenue over the anticipated period of benefit to the customer, which takes account of the likelihood of the customer renewing the contract. Under current policies, the full amount of the contract sign-up fee is recognised as revenue when it is paid by the customer at the start of the initial contract.

– *Costs of obtaining customer contracts*
The Group incurs certain costs to obtain customer contracts. Typically, such costs are commissions paid either to third party business partners or to internal sales employees. Under IFRS 15, all incremental costs of obtaining a contract with a customer are recognised as an asset on the balance sheet if the Group expects to recover those costs. The costs are amortised over the period during which the related revenue is recognised, which may extend beyond the initial contract term where the Group expects to benefit from future renewals as a result of incurring the costs. Under current policies, costs to obtain a contract are recognised as assets and amortised only if they are payable to a third-party agent and relate to a contract where revenue is recognised over time. As a result, compared to current policies the amount recognised as an asset under IFRS 15 increases and the recognition of costs is deferred.

- *Business Partner Arrangements*
  Under IFRS 15, the Group is required to assess whether it controls a good or service before it is transferred to the end customer to determine whether it is principal or agent in that transaction. This is in contrast to the existing guidance which is focused on assessing whether the Group has the risks and rewards of a principal. For Sage, the application of IFRS 15 results in a change in principal versus agent assessment for a number of business partner arrangements. The Group has therefore identified an increase in the number of business partner arrangements where Sage is considered to be the principal under IFRS 15 with respect to the end customer. As a result, there will be an increase in gross revenue recognition for these arrangements as the amounts payable to business partners will be classified as a cost of sale rather than a deduction to revenue.

Other immaterial differences have been identified and separately disclosed in the table below.

Accounting judgements and estimates

The application of IFRS 15 to these and other aspects of accounting for revenue requires the Group to make certain judgements and estimates. The most significant are:

- The establishment of standalone selling prices that are used as the basis for the apportionment of the transaction price to separate performance obligations. This is a new concept introduced by IFRS 15 compared to current requirements and can impact the timing of revenue recognition. Judgement is sometimes required to determine the standalone selling price particularly in respect of on-premise subscription offerings. Where standalone selling prices for on-premise offerings are observable and consistent across the customer base, SSP estimates are derived from pricing history. Where there are no directly observable estimates available, comparable products are utilised as a basis of assessment.
- Determining the periods over which the costs of obtaining contracts are amortised and revenue from upfront fees is recognised. The periods reflect the expected contract life including renewals. Assumptions on renewals are based on historical renewal rates for the products and market concerned, adjusted for any identified likely change in renewal patterns.
- The assessment of whether to report revenue gross or net for business partner arrangements. The treatment depends on whether the business partner or the end user qualifies as Sage's customer.

Presentation and disclosures
The changes in revenue and cost recognition noted above which impact the consolidated income statement will have a corresponding effect on the consolidated balance sheet, most significantly relating to the inclusion of capitalised commissions costs. In addition, under IFRS 15 where amounts are invoiced in advance, the receivables and corresponding deferred income may not be recognised until the earlier of the service being provided and the payment falling due. Management is currently in the process of assessing the extent of the impact and this reduction is not currently disclosed within the quantitative impact disclosure below.

In the year ending 30 September 2019, the cumulative effect of initial application will be recognised as an adjustment to the balance of retained earnings at the start of the year. The adjustments arising from applying IFRS 15 rather than the current standard (IAS 18) for the year ending 30 September 2019 will be disclosed for each line item in the financial statements. The notes to the financial statements will contain additional quantitative and qualitative disclosures, as well as information on the accounting estimates and judgements made in respect of certain aspects of IFRS 15.

IFRS 15 is not expected to have any impact on net cash generated from operating activities.

Quantitative impact

The Group's current estimate of the financial impact of the changes arising from IFRS 15 on the consolidated balance sheet on initial application is as follows.

	30 September 2018							
	As previously reported £m	Unbundling subscription software £m	Non-refundable contract sign-up fees £m	Costs of obtaining customer contracts £m	Other adjustments £m	Tax impact £m	**Total IFRS 15 adjustments £m**	**Restated on adoption of IFRS 15 £m**
Total assets	**3,317**	–	–	37	–	–	**37**	**3,354**
Total liabilities	**(1,990)**	22	(21)	–	(6)	(9)	**(14)**	**(2,004)**
Net assets	**1,327**	22	(21)	37	(6)	(9)	**23**	**1,350**
Equity – retained earnings	**1,327**	22	(21)	37	(6)	(9)	**23**	**1,350**

*The table above does not reflect the potential balance sheet presentation adjustments, currently being assessed by management, as discussed above.

Amounts are inclusive of tax movements but do not include the impact of adopting IFRS 9.

This impact is based on the assessments performed to date and may be revised as further analysis is performed before the reporting of financial information for periods including the date of initial application.

The impact on the Group's financial statements in the period of initial application will significantly depend on its business and go-to-market strategy in the year ending 30 September 2019 and beyond.

IFRS 16

IFRS 16 will change lease accounting mainly for lessees and will replace the existing standard IAS 17. An asset for the right to use the leased item and a liability for future lease payments will be recognised for all leases, subject to limited exemptions for short-term leases and low value lease assets. The costs of leases will be recognised in the income statement split between depreciation of the lease asset and a finance charge on the lease liability. This is similar to the existing accounting for finance leases, but substantively different to the existing accounting for operating leases under which no lease asset or lease liability is recognised and rentals payable are charged to the income statement on a straight-line basis as an operating expense.

The Group will adopt IFRS 16 on its effective date and the first financial year reported under the new standard will be the year commencing 1 October 2019. The Group is currently reviewing the implications that this will have on its consolidated financial statements. All of the Group's leases are currently accounted for as operating leases, and the most significant leases, by value, are those for rented office buildings. The main impact on transition to the new standard will be a significant increase in the Group's total liabilities due to the recognition of a liability for the present value of future lease payments on these leases, and a corresponding increase in total assets for the right to use lease asset.

Critical accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates and assumptions by management. It also requires management to exercise its judgement in the process of applying the accounting policies. We continually evaluate our estimates, assumptions and judgements based on available information. The areas involving a higher degree of judgement or complexity are described below.

Revenue recognition

Approximately 35% of the company's revenue is generated from sales to partners rather than to end users. The key judgement in accounting for the three principal ways in which our business partners are remunerated is determining whether the business partner is a customer of the Group in respect of the initial product sale. The key criteria in this determination is whether the business partner has paid for and taken on the risks and rewards of ownership of the software product from Sage. A critical accounting estimate is the recognition and deferral of revenue on bundled products, for example the sale of a perpetual licence with an annual maintenance and support contract.

The full revenue recognition policy is disclosed in the 30 September 2018 financial statements.

Goodwill impairment

A key judgement is the ongoing appropriateness of the cash-generating units ("CGUs") for the purpose of impairment testing. The assumptions applied in calculating the value in use of the CGUs being tested for impairment is a source of estimation uncertainty. The allocation of goodwill on the acquisition of Sage Intacct to the CGUs expected to benefit from the acquisition, required significant judgement.

The carrying value of goodwill and the key assumptions used in performing the annual impairment assessment are disclosed in the 30 September 2018 financial statements.

Business combinations

When the Group completes a business combination, the consideration transferred for the acquisition and the identifiable assets and liabilities acquired are recognised at their fair values. The amount by which the consideration exceeds the net assets acquired is recognised as goodwill. The application of accounting policies to business combinations involves judgement and the use of estimates. There have been no significant business combinations in the year which required significant judgment and use of estimates. During the prior year, the Group made two significant business combinations in which it acquired Sage Intacct (formerly Intacct Corporation) and Sage People (formerly Fairsail Limited). The aspects of these transactions that required particular judgement were the identification of acquired intangible assets that met the criteria for recognition in both transactions. Estimates were required in the measurement of the intangible assets recognised for both acquisitions and of deferred income for Sage Intacct. The Group engaged external experts to support these assessments. Management concluded that the intangible assets acquired that qualified for recognition separately from goodwill were customer relationships, technology and, additionally for Intacct, brands. The fair values of customer relationships were determined using the excess earnings method, technology and brands using the relief from royalty method, and deferred income using a bottom-up approach. These valuation techniques require a number of key assumptions including revenue forecasts and the application of an appropriate discount rate to state future cash flows at their present value.

Amounts recognised for Intacct at 30 September 2017 were provisional due to the proximity of the acquisition date to the date of approval of the Annual Report. An explanation of the changes and the impact on the prior year consolidated balance sheet is set out in note 11.

Website

This condensed consolidated annual financial report for the year ended 30 September 2018 can also be found on our website : www.sage.com/investors/investor-downloads

2 Segment information

In accordance with IFRS 8, "Operating Segments", information for the Group's operating segments has been derived using the information used by the chief operating decision maker. The Group's Executive Committee has been identified as the chief operating decision maker in accordance with their designated responsibility for the allocation of resources to operating segments and assessing their performance, through the Quarterly Business Reviews chaired by the President and Chief Financial Officer. The Executive Committee uses organic and underlying data to monitor business performance. Operating segments are reported in a manner which is consistent with the operating segments produced for internal management reporting.

The Group is organised into nine key operating segments: Northern Europe (UK and Ireland), Central Europe (Germany, Austria and Switzerland), France, Iberia (Spain and Portugal), North America (excluding Intacct) (US and Canada), North America Intacct, Africa and the Middle East, Asia (including Australia) and Latin America. With effect from 1 October 2017, the previous operating segment of Southern Europe was split into two key operating segments, France and Iberia, as part of the continued focus to get closer to customers. For reporting under IFRS 8, the Group is divided into three reportable segments. These segments are as follows:

- Northern Europe
- Central and Southern Europe (Central Europe, France and Iberia)
- North America (North America (excluding Intacct) and North America Intacct)

The remaining operating segments of Africa and the Middle East, Asia (including Australia) and Latin America do not meet the quantitative thresholds for presentation as separate reportable segments under IFRS 8, and so are presented together and described as International. They include the Group's operations in South Africa, UAE, Australia, Singapore, Malaysia and Brazil.

The reportable segments reflect the aggregation of the operating segments for Central Europe, France and Iberia, and also of those for North America (excluding Intacct) and North America Intacct. In each case, the aggregated operating segments are considered to share similar economic characteristics because they have similar long-term gross margins and operate in similar markets. Central Europe, France and Iberia operate principally within the EU and the majority of their businesses are in countries within the Euro area. North America (excluding Intacct) and North America Intacct share the same North American geographical market and therefore share the same economic characteristics. The UK is the home country of the parent.

The revenue analysis in the table below is based on the location of the customer, which is not materially different from the location where the order is received and where the assets are located.

Revenue by segment

	Year ended 30 September 2018							
	Statutory £m	**Underlying adjustments £m**	**Underlying £m**	**Organic adjustments* £m**	**Organic £m**	Change Statutory %	Change Underlying %	Change Organic %
Recurring revenue by segment								
Northern Europe	**297**	**1**	**298**	**–**	**298**	1.7%	2.5%	1.6%
Central and Southern Europe	**475**	**–**	**475**	**–**	**475**	5.5%	4.2%	4.4%
North America	**468**	**10**	**478**	**(7)**	**471**	20.5%	28,6%	12.9%
International	**197**	**–**	**197**	**–**	**197**	(1.8%)	5.7%	6.2%
Recurring revenue	**1,437**	**11**	**1,448**	**(7)**	**1,441**	8.1%	11.0%	6.7%
Software and software related services (“SSRS”) revenue by segment								
Northern Europe	**44**	**–**	**44**	**–**	**44**	12.8%	9.6%	7.2%
Central and Southern Europe	**150**	**–**	**150**	**–**	**150**	15.1%	13.7%	13.9%
North America	**75**	**–**	**75**	**(1)**	**74**	3.5%	9.9%	4.0%
International	**55**	**–**	**55**	**–**	**55**	(9.4%)	(4.2%)	(2.5%)
SSRS revenue	**324**	**–**	**324**	**(1)**	**323**	6.7%	8.8%	7.6%
Processing revenue by segment								
Northern Europe	**39**	**–**	**39**	**–**	**39**	4.2%	4.0%	4.0%
Central and Southern Europe	**–**	**–**	**–**	**–**	**–**	0.0%	0.0%	0.0%
North America	**31**	**–**	**31**	**(30)**	**1**	(1.9%)	4.1%	(2.4%)
International	**15**	**–**	**15**	**–**	**15**	8.6%	13.0%	13.0%
Processing revenue	**85**	**–**	**85**	**(30)**	**55**	2.6%	5.5%	6.2%
Total revenue by segment								
Northern Europe	**380**	**1**	**381**	**–**	**381**	3.3%	3.4%	2.5%
Central and Southern Europe	**625**	**–**	**625**	**–**	**625**	7.7%	6.3%	6.5%
North America	**574**	**10**	**584**	**(38)**	**546**	16.7%	24.3%	11.6%
International	**267**	**–**	**267**	**–**	**267**	(3.0%)	3.9%	4.7%
Total revenue	**1,846**	**11**	**1,857**	**(38)**	**1,819**	7.6%	10.3%	6.8%

* Adjustments relate to the disposal of XRT and assets held for sale in the current year (note 11). The prior year adjustments also include the 2017 acquisitions of Intacct and Sage People.

Revenue by segment (continued)

	Year ended 30 September 2017						
	Statutory £m	Underlying adjustments £m	Underlying as reported £m	Impact of foreign exchange £m	Underlying £m	Organic adjustments* £m	Organic £m
Recurring revenue by segment							
Northern Europe	292	–	292	(1)	291	3	294
Central and Southern Europe	450	–	450	6	456	(1)	455
North America	388	5	393	(22)	371	46	417
International	201	–	201	(13)	188	(2)	186
Recurring revenue	1,331	5	1,336	(30)	1,306	46	1,352
Software and software related services (“SSRS”) revenue by segment							
Northern Europe	39	–	39	2	41	1	42
Central and Southern Europe	130	–	130	2	132	–	132
North America	72	–	72	(4)	68	3	71
International	60	–	60	(4)	56	(1)	55
SSRS revenue	301	–	301	(4)	297	3	300
Processing revenue by segment							
Northern Europe	37	–	37	–	37	–	37
Central and Southern Europe	–	–	–	–	–	–	–
North America	32	–	32	(2)	30	(29)	1
International	14	–	14	(1)	13	–	13
Processing revenue	83	–	83	(3)	80	(29)	51
Total revenue by segment							
Northern Europe	368	–	368	1	369	4	373
Central and Southern Europe	580	–	580	8	588	(1)	587
North America	492	5	497	(28)	469	20	489
International	275	–	275	(18)	257	(3)	254
Total revenue	1,715	5	1,720	(37)	1,683	20	1,703

* Adjustments relate to the disposal of XRT and assets held for sale in the current year (note 11). The prior year adjustments also include the 2017 acquisitions of Intacct and Sage People.

Operating profit by segment

	Year ended 30 September 2018						
	Statutory £m	**Underlying adjustments £m**	**Underlying £m**	**Organic adjustments £m**	**Organic £m**	Change Statutory %	Change Underlying %
Operating profit by segment							
Northern Europe	**130**	**11**	**141**	**–**	**141**	(3.6%)	(12.0%)
Central and Southern Europe	**174**	**10**	**184**	**–**	**184**	35.2%	12.1%
North America	**94**	**55**	**149**	**1**	**150**	44.0%	44.6%
International	**29**	**1**	**30**	**–**	**30**	51.2%	(15.4%)
Total operating profit	**427**	**77**	**504**	**1**	**505**	22.7%	8.9%

	Year ended 30 September 2017				
	Statutory £m	Underlying adjustments £m	Underlying as reported £m	Impact of foreign exchange £m	Underlying £m
Operating profit by segment					
Northern Europe	135	25	160	–	160
Central and Southern Europe	129	33	162	2	164
North America	65	44	109	(6)	103
International	19	17	36	–	36
Total operating profit	348	119	467	(4)	463

Reconciliation of underlying operating profit to statutory operating profit

	2018 £m	2017 £m
Northern Europe	**141**	160
Central and Southern Europe	**184**	164
North America	**149**	103
Total reportable segments	**474**	427
International	**30**	36
Underlying operating profit	**504**	463
Impact of movement in foreign currency exchange rates	**–**	4
Underlying operating profit (as reported)	**504**	467
Amortisation of acquired intangible assets	**(35)**	(22)
Other M&A activity-related items	**(32)**	(27)
Non-recurring items	**(10)**	(70)
Statutory operating profit	**427**	348

3 Adjustments between underlying profit and statutory profit

	2018 Recurring £m	**2018 Non-recurring £m**	**2018 Total £m**	2017 Recurring £m	2017 Non-recurring £m	2017 Total £m
M&A activity-related items						
Amortisation of acquired intangibles	**35**	**–**	**35**	22	–	22
Gain/(loss) on disposal of subsidiary	**–**	**1**	**1**	–	(3)	(3)
Adjustment to acquired deferred income	**11**	**–**	**11**	5	–	5
Other M&A activity-related items	**21**	**–**	**21**	22	–	22
Other items						
Litigation items	**–**	**4**	**4**	–	–	–
Restructuring costs	**–**	**5**	**5**	–	–	–
Business transformation costs	**–**	**–**	**–**	–	73	73
Total adjustments made to operating profit	**67**	**10**	**77**	49	70	119
Fair value adjustments	**1**	**–**	**1**	(6)	–	(6)
Gain on remeasurement of existing investment in an associate	**–**	**–**	**–**	–	(13)	(13)
Amortisation of acquired intangibles	**–**	**–**	**–**	1	–	1
Foreign currency movements on intercompany balances	**(1)**	**–**	**(1)**	(1)	–	(1)
Total adjustments made to profit before income tax	**67**	**10**	**77**	43	57	100

Recurring items

Acquired intangibles are assets which have previously been recognised as part of business combinations. These assets are predominantly brands, customer relationships and technology rights.

The adjustment to acquired deferred income represents the additional revenue that would have been recorded in the year had deferred income not been reduced as part of the purchase price allocation adjustment made for business combinations.

Other M&A activity-related items relate to completed transaction costs and include advisory, legal, accounting, valuation and other professional or consulting services as well as acquisition-related remuneration and directly attributable integration costs. The main costs relate to the prior year acquisition of Intacct Corporation and Sage People Limited and acquisitions in the year.

The fair value adjustments comprise a charge of £1m (2017: £1m) in relation to an embedded derivative asset which relates to contractual terms agreed as part of the US private placement debt. In 2017 there was a credit of £7m relating to a fair value adjustment of financial assets.

Amortisation of acquired intangibles below operating profit relates to the Group’s share of the amortisation of intangible assets arising on the acquisition of an investment in an associate accounted for under the equity method.

Foreign currency movements on intercompany balances of £1m (2017: credit of £1m) occurs due to retranslation of intercompany balances other than those where settlement is not planned or likely in the foreseeable future. The balance arises in the current year due to fluctuation in exchange rates, predominately the movement in Euro and US Dollar compared to sterling.

Non-recurring items

Net charges in respect of non-recurring items amounted to £10m (2017: £57m).

The adjustment relating to litigation costs of £4m (2017 £nil) relate to two specific employment related matters that, based on the Group's experience, are one off in nature. Both cases were agreed post year-end, with settlement expected within the next financial year. All other litigation costs which have been incurred through the normal course of business are included within underlying operating profit.

Restructuring costs of £5m (2017: £nil) relate to the restructure of parts of the senior leadership team. The restructuring charge related to the costs incurred in the consolidation and reduction of certain layers of the Group's management structure. Costs relating to all other workforce rationalisation and replacement are included within underlying operating profit.

Charges of £nil (2017: £73m) have been incurred as a result of the implementation of the business transformation strategy, which completed by 30 September 2017. The prior year charge comprised people-related reorganisation charges of £32m, net property exit costs of £14m and other directly attributable costs, mainly relating to consultancy, contractor and asset write downs, of £27m. These charges were one-off in nature as they were incurred to deliver the transformation.

Total cash paid in relation to the business transformation strategy totalled £31m (2017: £72m) in the year.

Details of loss on disposal of subsidiary can be found in note 11.

In the prior year, the gain on disposal of subsidiary related to the sale of Syska, and the gain on remeasurement of existing investment in an associate related to the acquisition of Sage People (formerly Fairsail).

4 Income tax expense

The effective tax rate on statutory profit before tax was 26% (2017: 25%), whilst the effective tax rate on underlying profit before tax on continuing operations was 26% (2017: 26%).

5 Dividends

	2018 £m	2017 £m
Final dividend paid for the year ended 30 September 2017 of 10.20p per share	**110**	–
(2017: final dividend paid for the year ended 30 September 2016 of 9.35p per share)	**–**	101
Interim dividend paid for the year ended 30 September 2018 of 5.65p per share	**61**	–
(2017: interim dividend paid for the year ended 30 September 2017 of 5.22p per share)	**–**	56
	171	157

In addition, the directors are proposing a final dividend in respect of the financial year ended 30 September 2018 of 10.85p per share which will absorb an estimated £118m of shareholders' funds. It will be paid on 1 March 2019 to shareholders who are on the register of members on 8 February 2019. These financial statements do not reflect this dividend payable.

6 Earnings per share

Basic earnings per share is calculated by dividing the profit for the year attributable to owners of the parent by the weighted average number of ordinary shares in issue during the year, excluding those held as treasury shares, which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares, exercisable at the end of the year. The Group has one class of dilutive potential ordinary shares. They are share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year.

	Underlying 2018	Underlying as reported 2017	Underlying 2017	**Statutory 2018**	Statutory 2017
Earnings attributable to owners of the parent – Continuing operations (£m)					
Profit for the year	**352**	327	324	**295**	257
Number of shares (millions)					
Weighted average number of shares	**1,083**	1,080	1,080	**1,083**	1,080
Dilutive effects of shares	**6**	4	4	**6**	4
	1,089	1,084	1,084	**1,089**	1,084
Earnings per share attributable to owners of the parent – Continuing operations (pence)					
Basic earnings per share	**32.51**	30.28	29.95	**27.21**	23.86
Diluted earnings per share	**32.35**	30.18	29.85	**27.07**	23.78

	Underlying 2018	Underlying as reported 2017	Underlying 2017	**Statutory 2018**	Statutory 2017
Earnings attributable to owners of the parent – Continuing and discontinued operations (£m)					
Profit for the year	**352**	345	340	**295**	300
Number of shares (millions)					
Weighted average number of shares	**1,083**	1,080	1,080	**1,083**	1,080
Dilutive effects of shares	**6**	4	4	**6**	4
	1,089	1,084	1,084	**1,089**	1,084
Earnings per share attributable to owners of the parent – Continuing and discontinued operations (pence)					
Basic earnings per share	**32.51**	31.90	31.45	**27.21**	27.80
Diluted earnings per share	**32.35**	31.79	31.34	**27.07**	27.71

Reconciliation of earnings – Continuing operations	2018 £m	2017 £m
Underlying earnings attributable to owners of the parent (after exchange movement)	352	324
Impact of movement in foreign currency exchange rates, net of taxation	–	3
Underlying earnings attributable to owners of the parent (as reported)	352	327
Amortisation of acquired intangible assets and adjustment to acquired deferred income	(46)	(28)
Fair value adjustments to debt-related financial instruments	(1)	6
(Loss)/gain on disposal of subsidiary	(1)	3
Foreign currency movements on intercompany balances	1	1
Other M&A activity-related items	(21)	(22)
Restructuring costs and litigation related items	(9)	–
Transformation costs	–	(73)
Gain on remeasurement of existing investment in an associate	–	13
Taxation on adjustments between underlying and statutory profit before tax	20	30
Net adjustments	(57)	(70)
Earnings: statutory profit for the year	295	257

Reconciliation of earnings – Continuing and discontinued operations	2018 £m	2017 £m
Underlying earnings attributable to owners of the parent (after exchange movement)	352	340
Impact of movement in foreign currency exchange rates, net of taxation	–	5
Underlying earnings attributable to owners of the parent (as reported)	352	345
Net adjustments - Continuing operations	(57)	(70)
Gain on disposal of subsidiaries – discontinued operations	–	25
Net adjustments	(57)	(45)
Earnings: statutory profit for the year	295	300

7 Non-current assets

	Goodwill £m	Other intangible assets £m	Property, plant and equipment £m	Total £m
Opening net book amount at 1 October 2017	**2,002**	**274**	**133**	**2,409**
Additions	**–**	**39**	**20**	**59**
Acquisition	**–**	**11**	**–**	**11**
Disposals	**–**	**(1)**	**(3)**	**(4)**
Transfer to held for sale	**(32)**	**(20)**	**–**	**(52)**
Depreciation, amortisation and other movements	**–**	**(48)**	**(20)**	**(68)**
Exchange movement	**38**	**5**	**(1)**	**42**
Closing net book amount at 30 September 2018	**2,008**	**260**	**129**	**2,397**

	Goodwill (restated) £m	Other intangible assets £m	Property, plant and equipment £m	Total (restated) £m
Opening net book amount at 1 October 2016	1,659	109	123	1,891
Additions	–	22	30	52
Acquisition	572	185	6	763
Disposals of subsidiaries	(189)	(1)	(2)	(192)
Disposals	–	(1)	(4)	(5)
Depreciation, amortisation and other movements	–	(36)	(22)	(58)
Exchange movement	(40)	(4)	2	(42)
Closing net book amount at 30 September 2017	2,002	274	133	2,409

Goodwill is not subject to amortisation, but is tested for impairment annually at the year-end or whenever there is any indication of impairment. At 30 September 2018, there were no indicators of impairment to goodwill. Full details of the outcome of the 2018 goodwill impairment review are provided in the 2018 financial statements.

Detail of the current period acquisitions and disposals has been provided in note 11.

8 Financial instruments

For financial assets and liabilities, the carrying amount approximates the fair value of the instruments, with the exception of US senior loan notes due to these bearing interest at fixed rates. The fair value of borrowings is determined by reference to interest rate movements on the US $ private placement market and therefore can be considered as a level 2 fair value as defined within IFRS 13 with the respective book and fair values included in the table below.

	At 30 September 2018		At 30 September 2017	
	Book Value £m	**Fair Value £m**	Book Value £m	Fair Value £m
Long-term borrowing	**913**	**906**	914	924
Short-term borrowing	**8**	**8**	55	56

9 Ordinary shares and share premium

	Number of shares	**Ordinary Shares £m**	**Share premium £m**	**Total £m**
At 1 October 2017	**1,120,638,121**	**12**	**548**	**560**
Shares issued/proceeds	**151,174**	**–**	**–**	**–**
At 30 September 2018	**1,120,789,295**	**12**	**548**	**560**

	Number of Shares	Ordinary Shares £m	Share Premium £m	Total £m
At 1 October 2016	1,119,480,363	12	544	556
Shares issued/proceeds	1,157,758	–	4	4
At 30 September 2017	1,120,638,121	12	548	560

During the year the Group agreed to satisfy the vesting of certain share awards, utilising a total of 3,022,375 (2017: nil) treasury shares. The group purchased nil shares (2017: nil) and gifted nil shares (2017: 1,019,166) to the Employee Share Trust.

During the year, the Employee Share Trust agreed to satisfy the vesting of certain share awards, utilising a total of 707,190 (2017: 2,450,345) shares held in the Trust. The Trust received £nil (2017: £9m) additional funds to purchase shares in the market (2017: 1,376,583 shares purchased).

10 Cash flow and net debt

	2018 £m	2017 £m
Statutory operating profit – continuing operations	**427**	348
Recurring and non-recurring items	**77**	119
Underlying operating profit – continuing operations	**504**	467
Underlying operating profit – discontinued operations	**–**	29
Underlying operating profit (as reported)	**504**	496
Non-cash items	**(6)**	(1)
Depreciation/amortisation/impairment/profit on disposal of non-current assets	**34**	35
Share-based payments	**5**	6
Net changes in working capital	**(10)**	(14)
Net capital expenditure	**(45)**	(52)
Underlying cash flow from operating activities	**482**	470
Non-recurring cash items	**(35)**	(72)
Net interest paid	**(26)**	(22)
Income tax paid	**(64)**	(102)
Profit and loss foreign exchange movements	**(1)**	2
Free cash flow	**356**	276
Net debt at 1 October	**(813)**	(398)
Acquisitions and disposals of subsidiaries, net of cash	**(21)**	(544)
Dividends paid to owners of the parent	**(171)**	(157)
Purchase of treasury shares	**–**	(9)
Share issue	**3**	4
Exchange movement	**(20)**	13
Other	**(2)**	2
Net debt at 30 September	**(668)**	(813)

	2018 £m	2017 £m
Underlying cash flow from operating activities	**482**	470
Recurring and non-recurring cash items	**(37)**	(94)
Net capital expenditure	**45**	52
Working capital adjustments	**(2)**	(2)
Exchange rate translation movements	**(1)**	2
Statutory cash flow from operating activities	**487**	428

Analysis of change in net debt (inclusive of finance leases)	At 1 October 2017 £m	Cash flow £m	Reclassification as held for sale £m	Non-cash movements £m	Exchange movement £m	At 30 September 2018 £m
Cash and cash equivalents	231	**98**	**(58)**	**–**	**1**	**272**
Bank overdrafts	(18)	**9**	**–**	**–**	**1**	**(8)**
Cash amounts included in held for sale	–	**–**	**58**	**–**	**–**	**58**
Cash, cash equivalents and bank overdrafts	213	**107**	**–**	**–**	**2**	**322**
Liabilities arising from financing activities						
Loans due within one year	(37)	**38**	**–**	**–**	**(1)**	**–**
Loans due after more than one year	(914)	**24**	**–**	**(2)**	**(21)**	**(913)**
Cash held on behalf of customers	(75)	**(2)**	**58**	**–**	**(2)**	**(19)**
Cash held on behalf of customers included in held for sale	–	**–**	**(58)**	**–**	**–**	**(58)**
	(1,026)	**60**	**–**	**(2)**	**(22)**	**(990)**
Total	(813)	**167**	**–**	**(2)**	**(20)**	**(668)**

Included in cash above is £77m (2017: £75m) relating to cash held on behalf of customers. This arises as a consequence of providing payment transaction processing and electronic fund transfer services. The balance represents cash in transit from third parties to Sage Customers. Accordingly, a liability for the same amount is included in trade and other payables on the balance sheet and is classified within net debt.

The Group continues to be able to borrow at competitive rates and currently deems this to be the most effective means of raising finance. The Group's current syndicated bank multi-currency revolving credit facility expires in February 2023 with facility levels of £686m (US$719m and £135m tranches). At 30 September 2018, £418m (FY17: £318m) of the multi-currency revolving debt facility was drawn.

Total US private placement ("USPP") loan notes at 30 September 2018 were £497m (US$550m and EUR€85m) (FY17: £522m, US$600m and EUR€85m).

11 Acquisitions and disposals

Measurement adjustments to business combinations reported using provisional amounts

In the financial statements for the year ended 30 September 2017, the acquisition of Intacct Corporation was accounted for using provisional fair values as the initial accounting for acquired intangible assets and goodwill was incomplete due to the short period between the acquisition date and the approval of the Annual Report. During the current year, the accounting for the acquisition has been finalised, resulting in the following revisions to the provisional amounts:

Fair value of identifiable net assets acquired	Previously reported provisional fair values £m	Measurement adjustments £m	Final fair values £m
Intangible assets	142	–	142
Property, plant and equipment	5	–	5
Cash	2	–	2
Trade and other receivables	14	–	14
Other financial assets	1	–	1
Trade and other payables	(10)	–	(10)
Deferred income	(18)	–	(18)
Borrowings	(9)	–	(9)
Deferred tax liability	(23)	21	(2)
Fair value of identifiable net assets acquired	104	21	125
Goodwill	523	(21)	502
Total consideration	**627**	**–**	**627**

The adjustments arise as a result of new information that has been obtained that would have affected the measurement of the provisional amounts. Therefore, the prior year financial statements have been restated so that they are presented as if the final fair values were recognised as at the date of the acquisition, 3 August 2017. The adjustments to deferred tax and goodwill identified above are reflected in the restated balance sheet for the year ended 30 September 2017.

Acquisitions made during the current year

On 28 March 2018, the Group acquired 100% of the equity capital of Budgeta Inc., a provider of a budgeting and forecasting solution, for cash consideration of £8m. The value of net assets acquired was £8m, comprising intangible technology assets of £11m and deferred tax liabilities of £3m. When the Group reported its results for the six months ended 31 March 2018, provisional fair values were used for accounting for the acquisition. Subsequently, the accounting has been finalised, resulting in an increase in the fair value of identifiable net assets acquired of £8m, with a corresponding decrease in the amount of goodwill. The increase in net assets acquired relates to the recognition of the intangible assets and deferred tax liabilities identified above.

Disposals made during the current year

On 30 November 2017, the Group sold its subsidiary Sage XRT Brasil Ltda ("XRT"). Net assets divested were £1m, and the transaction resulted in a loss on disposal of £1m. The assets and liabilities of XRT were presented as held for sale in the Group's financial statements for the year ended 30 September 2017. Prior to disposal, the business formed part of the Group's International reporting segment.

Discontinued operations and assets and liabilities held for sale

The Group had no discontinued operations during the year ended 30 September 2018. Assets and liabilities held for sale relate to the subsidiaries forming the Group's US-based payroll outsourcing business, which was classified as held for sale during the year. The sale is expected to be finalised during the year ending 30 September 2019. The business forms part of the Group's North America reportable segment. Upon disposal, the income in relation to cumulative foreign exchange differences that have been recognised in other comprehensive income relating to the assets and liabilities of the business from the date of its acquisition to the date of disposal will be recycled to the income statement. Assets and liabilities held for sale at 30 September 2017 relate to the Group's subsidiary Sage XRT Brasil Ltda which was sold on 30 November 2017.

Assets and liabilities held for sale comprise:

	2018 £m	2017 £m
Goodwill	**32**	–
Other intangible assets	**20**	–
Trade and other receivables	**3**	1
Cash and cash equivalents	**58**	–
Total assets	**113**	1
Trade and other payables	**(62)**	(1)
Deferred tax liabilities	**(1)**	–
Total liabilities	**(63)**	(1)
Net assets	**50**	–

Discontinued operations in the year ended 30 September 2017 relate to the subsidiaries that formed the Group's North American Payments business. The North America Payments business was sold during the second half of the year ended 30 September 2017.

Profit from discontinued operations for the year ended 30 September 2017 is analysed as follows:

	Underlying as reported 2017 £m	Adjustments 2017 £m	Statutory 2017 £m
Revenue	119	–	119
Cost of sales	(11)	–	(11)
Gross profit	108	–	108
Selling and administrative expenses	(79)	–	(79)
Operating profit/profit before income tax	29	–	29
Income tax expense	(11)	–	(11)
Profit after income tax	18	–	18
Gain on disposal of discontinued operations	–	27	27
Tax on disposal	–	(2)	(2)
Profit on discontinued operations	18	25	43

Cash flow from discontinued operations for the year ended 30 September 2017 is analysed as follows:

Cash flows from:	2017 £m
Operating activities	25
Net proceeds on disposal of business	158
Financing activities	4
	187

12 Related party transactions

The Group's related parties are its subsidiary undertakings and its key management personnel, which comprises the Group's Executive Committee members. Prior to 17 March 2017, related parties also included the Group's investment in its associated undertaking. The Group has taken advantage of the exemption available under IAS 24, "Related Party Disclosures", not to disclose details of transactions with its subsidiary undertakings

Key management compensation	**2018 £m**	2017 £m
Salaries and short-term employee benefits	**4**	5
Post-employment benefits	**-**	-
Share-based payments	**2**	3
	6	8

The key management figures given above include the executive directors of the Group.

Managing Our Risk Profile

Effective risk management enables us to identify, asses and manage those risks that could threaten the successful achievement of our business strategy. We continued to mature our risk management and control environment, which supported the business to grow the right way.

The Board conducted an ongoing assessment of the principal risks facing the Company throughout the year. Through this process, we evolved our principal risks to reflect the changes occurring within the business. This helped us remain focused on our goal of being a cloud-led SaaS business, with regular monitoring and reporting used to drive effective management of our principal risk exposures.

We focused on monitoring those risk metrics that would signal current performance, as well as help us to identify emerging issues. Executive leaders managed our principal risks, with accountability for other risks managed in accordance with our risk management framework.

Principal Risk	Risk Context	Management and Mitigation
Understanding Customer Needs If we fail to understand the products and services our current and future customers need to be successful, they will find alternative solution providers. Strategic alignment: ***Winning in the Market*** ***Customers for Life***	Sage is the leader in key global markets, and we can use this position to gather valuable insights into what our current and future customers want and need. It can also help us to better understand the strengths and weaknesses of our products and services, and better position those products and services to meet the needs of our current and future customers. By understanding the specific needs of these customer groups in each country and region, we will be better positioned to efficiently manage our products, marketing efforts and support services. This in turn will allow us to maximise our return on investment, and retain a loyal customer and partner base over the long term.	• Understanding of customer perception of the Sage brand and its products is supported by brand health surveys • A Market and Competitive Intelligence team is established to provide insights that Sage can use to win in the market. • A product re-naming exercise was completed to simplify the purpose of each product, and assist with customer understanding • Ongoing refinement and improvement of market data through feedback from the business In progress: • Simple, smart and open technology strategy to provide API and microservices through a Sage Developer Platform that enables ISVs to develop bespoke customer solutions

Principal Risk	Risk Context	Management and Mitigation
Product Strategy If we fail to develop and manage a prioritized strategy for our products that is aligned with our goals and delivers against customer needs, there is a significant financial risk that customers will go elsewhere. Strategic alignment: ***Winning in the Market*** ***Customers for Life*** ***Capacity for Growth***	A key component of Sage's transition to a Software as a Service (SaaS) company is the delivery of cloud-connected and cloud-native products. To achieve this, we will need to execute on a prioritised product strategy that moves our product portfolio to cloud-native solutions. This may include a transitional period of cloud-connected products, with a clear path to the cloud-native products our current and future customers desire.	• A licensing model transition strategy is in place, anchored on the Sage Business Cloud • Sage Business Cloud is released in United Kingdom and Ireland, North America, France and Spain • Recent cloud-native products (Sage Intacct and Sage People) are available in Sage Business Cloud • Approved subscription revenue targets are defined, which span multiple years and support successful and balanced delivery of our strategy • Ongoing monitoring and review of the approved targets takes place at country, regional and group levels to proactively manage the licence transition, and revenue targets • A Product Marketing team oversees competitive positioning and product development In progress: • Product rationalisation and prioritisation exercise is being conducted to ensure that native cloud products are delivered in line with customer expectations
Innovation If we fail to encourage and sustain the innovation that is required to create disruptive technologies, processes and services, we will fail to deliver on our commercial goals. Strategic alignment: ***Winning in the Market*** ***Revolutionise Business*** ***Capacity for Growth***	As Sage transitions into a SaaS business powered by a subscription license model, we must be able to rapidly deploy new innovations to our customers and partners. This innovation could relate to new technologies or services, or could represent a new way of working with Sage. Innovation will require us to address how we encourage innovation across our people, process and technology, and how we make this innovation sustainable. By building innovation into our collective DNA, we can empower our colleagues to improve the customer experience, and drive efficiencies in how we deliver our products and services. By strategically investing in platforms and relationships, we can also harness the innovation of our partners. By providing opportunities for our partners to interact with our products we can drive scalable growth and improve the customer experience.	• Market intelligence surveys identify market opportunities • A Product Delivery team develops and delivers products • Integration of the Pegg chat bot with Sage Accounting, to enhance the product experience using artificial intelligence • Prioritised product development based on 'customer for life' roadmaps In progress: • Simple, smart and open technology strategy to provide API and microservices through a Sage Developer Platform • Strategic acquisition and collaboration to complement and enable accelerated innovation • Platform Services delivered to Sage Business Cloud to enhance value proposition for Cloud adoption • Development of an incubation framework to guide how Sage interacts with its innovation partners • Enhancement of the Pegg AI capability, and increased use of machine learning to support new areas and operations

<table>
<tr><th>Principal Risk</th><th>Risk Context</th><th>Management and Mitigation</th></tr>
<tr><td>Route to Market

If we fail to identify, develop and maintain a blend of channels to market, our ability to sell and support the right products and services to the right customers at the right time is reduced.

Strategic alignment:

Winning in the Market

Capacity for Growth</td><td>By offering our current and potential customers the right information on the right products and services at the right time, we can maximise the value we can obtain from our marketing and customer engagement activities.

This can shorten our sales cycle, and ensure that customer retention is improved. It can also use new products and services, such as payments and banking technologies, to draw new customers into the Sage family.</td><td>• An approved internal communications plan is delivered, to share market intelligence to build brand awareness
• Market data is provided through a Market Data portal, allowing ease of access and improved analysis
• Dedicated partner channel managers are in place to support the development of partners, and to help manage the growth of targeted channels
• New routes to market are being opened through our partnerships with Payment and Banking technology providers

In progress:
• The Sage Partner Programme has been moved into the marketing organisation to drive increased alignment of the indirect channel to market</td></tr>
<tr><td>Customer Success

If we fail to align front and back office activities to deliver the best possible customer experience, including the cloud-based products our customers need to be successful, we will not be able to achieve sustainable growth.

Strategic alignment:

Winning in the Market

Customers for Life</td><td>If Sage is to become a true SaaS business, we must maintain a sharp focus on the relationship we have with our customers, constantly focus on delivering the products, services and experiences our customers need to be successful. If we do not do this, they will likely find another provider who does give them these things. Conversely, if we do these things well these customers will stay with Sage, increasing their lifetime value, becoming our greatest marketing advocates.

While Sage is renowned for its quality customer support, a focus on customer success requires more proactive engagement as well. By proactively helping customers to recognise and fully realize the value of Sage’s products we can help increase the value of these relationships over time, and reduce the likelihood of customer loss. By aligning our people, processes and technology with this focus in mind, all Sage colleagues can help support our customers to be successful and in turn drive increased financial performance.</td><td>• A Product Marketing team oversees competitive positioning and product development
• A Product Delivery team develops and delivers those products needed by our customers to support their success
• Battlecards are in place for key products in all countries, setting out the strengths and weaknesses of competitors and their products
• Defined 'customer for life' roadmaps are in place, detailing how products fit together, any interdependencies, and migration pathways for current and potential customers
• Continuous Net Promoter Score (NPS) surveying allows Sage to identify customer challenges rapidly, and respond in a timely manner to emerging trends

In progress:
• A data-driven Customer Success Framework is being piloted in Northern Europe. This framework is designed to enhance the customer experience and ensure that Sage is better positioned to meet the current and future needs of the customer.
• The results of this pilot will be used to enhance the Framework as it is rolled out to other major markets</td></tr>
</table>

Principal Risk	Risk Context	Management and Mitigation
Third Party Reliance If we fail to develop, manage and maintain relationships with third parties that are critical to the delivery of our products and services, we could suffer significant reputational and financial damage. *Strategic alignment:* ***Revolutionise Business*** ***Capacity for Growth***	Sage has an increasing reliance on a relatively small number of critical third-party providers that support the delivery of our products to our customers. Any interruption in these services or relationships could have a profound impact on Sage's reputation in the market and could result in significant financial liabilities and losses. Equally, Sage has an extensive network of sales partners critical to our profile in the market. Carefully selecting, managing and supporting these partners is critical to how we grow our business, as well as ensuring that we only engage with those people and organisations that share Sage's values and aspirations. As Sage continues its transition into a SaaS business, this will likely split into two risks. The first of these will focus on our key supplier dependencies, while the second will consider the risks specifically associated with our partner relationships.	• Dedicated partner and alliance channel managers are in place to support the development of partners, and to help manage the growth of targeted channels • Standardised implementation plans for Sage products that facilitate efficient partner implementation • The Procurement function supports the business with the selection of strategic third-party suppliers and negotiation of contracts • Procurement Lifecycle Policy and Procedures are agreed and published. These contain clear roles and responsibilities for colleagues and align with existing processes, including investment approval In progress: • Rationalisation of the third-party go to market portfolio is continuing to focus on value-add activities • Managed growth of the API estate, including enhanced product development that enables access by third party API developers • Transition of the Sage Partner Programme into the Marketing function to drive increased alignment of all product and service offerings
Sustainable Processes and Controls If we fail to apply sustainable and repeatable end-to-end business processes and controls, we will not be able to deliver against our goals. *Strategic alignment:* ***Winning in the Market*** ***Capacity for Growth*** ***One Sage***	Sage operates in multiple geographies and market segments where sustainable processes drive operational efficiencies. By consistently delivering the right outcome from its business processes each and every time, Sage is able to efficiently and effectively deliver an improved customer experience. By embedding a common business control framework that prioritizes the critical people, process and technology processes, the organization can focus on delivering the right outcomes at the right time. By right-sizing the control environment, we can also drive an improved focus on those outcomes that help support customer success, in turn helping to sustain our subscription growth.	• Established Global and Regional Risk Committees oversee the risk and internal control environment, and set the tone-from-the-top • The Sage Governance, Risk and Compliance (GRC) technology solution automates activity, and provides a consolidated view of risk, compliance and control environment. • The Sage Compliance Hub provides a one stop repository and alert mechanism for the organization, simplifying how Sage colleagues interact with and manage their compliance obligations. • Shared Service Centres (SSCs) are established in Newcastle, Johannesburg and Atlanta, enabling the creation of sustainable systems and processes • Policy Approval Committee in place to supervise and approve policies within the Sage-wide policy suite • Sage's business control framework is driving standardization of practice and process across the business In progress: • Plans for migration of remaining country General Ledgers into Sage Enterprise is on track • The Business Control Framework continues to be built out as a way of supporting the One Sage approach to control

Principal Risk	Risk Context	Management and Mitigation
Colleague Success If we fail to ensure we have colleagues with the critical skills, capabilities and capacity we need to deliver on our strategy, we will not be successful. *Strategic alignment:* ***Capacity for Growth*** ***One Sage***	As Sage transitions into a SaaS business, the capacity, knowledge and leadership skills we need will change. Sage will not only need to attract the talent and experience we will need to help navigate this change, we will also need to provide an environment where colleagues can grow to meet these new expectations. By empowering colleagues and leaders to make decisions, be innovative, and be bold in delivering on our commitments, Sage will be able to create an attractive working environment. By addressing drivers of colleague turn-over, and embracing the values of successful SaaS businesses, Sage can increase colleague engagement and create an aligned workforce.	• Roles and vacancies are benchmarked in the market to ensure appropriate remuneration • Job Descriptions provide criteria against which new hires and internal transfers are assessed • The performance management process identifies training and development needs for colleagues • Deployment of Leading at Sage training for all managers within the business to develop leaders In progress: • An Employee Value Proposition is being developed to drive a consistent experience for all prospective colleagues • Focused efforts are being developed to address regional retention drivers
Values and Behaviours If we do not fully empower our colleagues in line with our shared values, we will fail to develop the behavioural competencies required to be a successful SaaS business. *Strategic alignment:* ***Capacity for Growth*** ***Winning in the Market*** ***One Sage***	The development of a shared behavioural competency that encourages colleagues to think small and act big will be critical in Sage's successful transition to a SaaS business. Devolution of decision making, and the acceptance of accountability for these decisions, will need to go hand in hand as the organization develops and sustains its shared values and behaviours, and develops a true SaaS culture. As part of this shared behavioural understanding, Sage will also need to create a culture of empowered leaders that support the development of ideas, and that provides colleagues with a safe environment that allows for honest disclosures and discussions. Such a trusting and empowered environment can help sustain innovation, enhance customer service and drive the engagement that results in increased market share.	• Code of Conduct communicated to all colleagues, and subject to annual certification • Alignment of personal objectives across Sage, with direct cascade from the CEO • Formal assessment against personal objectives for each colleague as part of established performance management process, which also considers personal application of Sage's Values and Behaviours • Core eLearning modules have been rolled out across the enterprise, with annual refresher training • Whistleblowing and Incident Reporting mechanisms are in place to allow issues to be formally reported, and investigated • All colleagues are empowered to take up to five paid Sage Foundation days each year, to support charities and provide philanthropic support to the community In progress: • Transitioning compliance training into role-based education as a way of supporting colleagues to apply expected values and behaviours • Sage Compliance is undertaking work to measure and monitor the ethics and compliance culture at Sage using relevant operational metrics.

Principal Risk	Risk Context	Management and Mitigation
Information as an Asset If we fail to manage, protect and maximise the value of our data, we will not be able to realise the full potential of our assets. *Strategic alignment:* ***Winning in the Market*** ***Revolutionise Business*** ***One Sage***	Information is the life blood of a SaaS business – it tells us how we create revenue, how we can improve the customer experience, and how we can meet our obligations and commitments. Analysed using manual and machine learning, it provides us with the intelligence we need to run and build our business. Protecting the confidentiality, integrity and accessibility of this data is table stakes for a data-driven business, and failure to do so can have significant financial and regulatory consequences in the GDPR era. Moving beyond this, Sage's transition to a data driven business will require a sharp focus on how to not only protect, but also use, our data to drive improved business performance.	• Accountability is established within both OneIT and Product for all internal and external data being processed by Sage. Sage Chief Information Security Officer oversees information security, with a network of Information Security Officers that directly support the business • The Chief Data Protection officer supported by a Data Governance forum oversees information protection for Sage. • A network of country-level data champions help support the business to embed Sage practices across the organisation, with particular focus on the GDPR requirements that went into effect this year. • Formal certification schemes are maintained, across appropriate parts of the business, and include internal and external validation of compliance • Secure coding standards are in place for the development of new code • Structured and ad-hoc IT internal audit activity is undertaken by Sage Assurance against an agreed plan, and reported to management and the Audit and Risk Committee • The Sage information security policy suite was reviewed and updated to reflect changes in industry best practice • An organisation-wide General Data Protection Regulations (GDPR) project oversees those actions required to achieve compliance • An Incident Management framework is in place, which includes rating of incidents and requirements for notification and escalation, and online incident reporting to Sage Risk • Awareness training for Information Management and protection, with a focus on the GDPR requirements, has been deployed and will be regularly reinforced through colleague communication In progress: • Information Security Risk Management Methodology continues to be deployed to provide objective risk information on our assets and systems

Statement of Directors' Responsibilities

Responsibility statement of the Directors on the Annual Report & Accounts

The Annual Report & Accounts for the year ended 30 September 2018 includes the following responsibility statement.

The Directors as at the date of this report, whose names and functions are listed in the Board of Directors section of the Annual Report and Accounts, confirm that:

- To the best of their knowledge, the Group's financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- To the best of their knowledge, the Directors' report and the Strategic report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board

Steve Hare
Chief Executive Officer and Chief Financial Officer
20 November 2018