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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE SAGE GROUP PLC

Opinion

In our opinion:

- The Sage Group plc's Group financial statements and parent Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 September 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Separate opinion in relation to IFRS as issued by the International Accounting Standards Board

As explained in note 1 to the consolidated financial statements, the Group, in addition to applying IFRS as adopted by the European Union, has also applied IFRS as issued by the International Accounting Standards Board (IASB). In our opinion the consolidated financial statements comply with IFRS as issued by the IASB.

We have audited the financial statements of The Sage Group plc which comprise:

Group	Parent Company
Consolidated balance sheet as at 30 September 2018	Company balance sheet as at 30 September 2018
Consolidated income statement for the year then ended	Company statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Company accounting policies
Consolidated statement of changes in equity for the year then ended	Related notes 1 to 7 to the financial statements
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 18 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

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

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on page 60 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 60 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 129 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 68 in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether

they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	• Revenue recognition • Revenue Recognition – disclosures on the expected impact of the initial application of IFRS 15 [New in 2018] • Allocation of goodwill arising from the acquisition of Intacct and recoverability of goodwill allocated to the Intacct CGU [New in 2018]
Audit scope	• We performed an audit of the complete financial information of 6 components and audit procedures on specific balances for a further 5 components. • The components where we performed full or specific audit procedures accounted for 100% of adjusted Profit before tax *, 89% of Revenue and 94% of Total assets.
Materiality	• Overall Group materiality of £20.4m which represents 5% of adjusted Profit before tax*.

* Profit before tax and non-recurring items as defined in the 'Our application of materiality' section of this report

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Revenue recognition Refer to the Audit and Risk Committee Report (page 95); and Notes 2.1 and 3.1 of the Group financial statements The Group has reported revenues of £1,846m (FY17: £1,715m). We identified 2 specific risks of fraud and error in respect of inappropriate revenue recognition given the nature of the Group's products and services as follows: • Inappropriate timing of revenue recognition, including cut-off and deferral; and; • Inappropriate measurement of revenue attributed to products and services provided. We have updated the risk description in current year to simplify and provide greater clarity over the nature of the risk. There is no change in the risk profile in the current year.	We performed the procedures below at full and specific scope audit locations with significant revenue streams. We highlight any significant variations in these procedures between locations. • We performed walkthroughs of each significant class of revenue transactions and assessed the design effectiveness of key controls. For 2 components we tested the operating effectiveness of controls as this was identified as the most efficient audit approach. • We assessed management's determination of whether the nature of the Group's products and services results in the transfer of risk and reward at a point in time or over a period of time. This included the assessment of new or one-off transactions. • For products and services where risks and rewards are transferred over a period of time, we tested a sample of transactions to ensure the amount of revenue recognised in the year was accurately calculated based on the state of completion of the contract. As part of this testing we also tested the appropriateness of the deferred revenue at the balance sheet date. • For bundled products, we tested on a sample basis, that (1) the calculation of the fair value attributed to each element of the bundle was reasonable, and (2) that the allocation of any discount was consistent with the relative fair value of each element of the bundle. • We performed other substantive, transactional testing and analytical procedures to validate the recognition of revenue throughout the year. Where practicable, at component level we performed testing over full populations of transactions using data analysis. • For revenue recorded through journal entries outside of normal business processes, we performed testing to establish whether a service had been provided or a sale had occurred in the financial year to support the revenue recognised. • Our procedures to assess the recoverability of trade receivables included assessment of whether the provision against, or write off of, impacted our view as to the initial recognition of the related revenue. We also considered the adequacy of the Group's disclosures for the accounting policies for revenue recognition in notes 1 and 3.1 respectively. The full and specific scope audit locations with significant revenue streams (8 components) where we performed the audit procedures set out above covered 89% of the Group's revenue. We also performed review procedures in 3 locations, which covered a further 4% of the Group's revenue.	Based on the procedures performed, we did not identify any evidence of material misstatement in the revenue recognised in the year nor in amounts deferred at 30 September 2018.

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Revenue recognition – disclosures on the expected impact of the initial application of IFRS 15 [New in 2018] Refer to the Audit and Risk Committee Report (page 95); and Note 1 of the Group financial statements The Group is adopting IFRS 15 Revenue from Contracts with Customers ('IFRS 15') from 1 October 2018 and will apply the cumulative retrospective method to recognise the effect of the transition in equity at this date. The application of IFRS 15 is complex and involves management judgement and estimation. For Sage this complexity is increased as a result of diversity in products and services offered by the Group, and also in ways of selling these. Disclosure is required of the expected impact of IFRS 15 upon adoption on 1 October 2018. It expects that initial recognition will lead to an increase in retained earnings under equity of approximately £23m (after accounting for deferred taxes) as of 1 October 2018.	Our procedures in respect of the estimated impact of the initial adoption of IFRS 15 included: • We appraised the revisions to the Group's revenue recognition accounting policy under IFRS 15, including both its technical appropriateness and its completeness in reflecting the diversity of the Group's products and services; • We evaluated the impact analysis and the accounting judgements made based on the characteristics of the Group's products and their delivery to customers. • We assessed the appropriateness of the methods used to determine the estimated impact of the initial application of IFRS 15. We instructed component audit teams in all full and specific scope locations with significant revenue streams (eight locations), to perform: • audit procedures on a sample basis to test the accuracy and completeness of local management's analysis of product types, contract terms and sales channel mechanisms; and • substantive testing to support the quantitive information disclosed in the consolidated financial statements. We also considered the adequacy of the Group's disclosures on the estimated impact of the initial application of IFRS 15 set out in note 1.	Based on the procedures performed, the disclosure of the estimated impact was sufficiently documented and substantiated. The disclosure in note 1 of the impact of transition to IFRS 15 is appropriate.

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Allocation of goodwill arising from the acquisition of Intacct and recoverability of goodwill allocated to the North America Intacct cash generating unit [New in 2018] Refer to the Audit and Risk Committee Report (page 96); and Note 6.1 of the Group financial statements During the year, £42m of the £508m of goodwill that arose on the acquisition of Intacct on 3 August 2017 has been allocated to other cash generating units (CGUs), including £36m to the UKI CGU. We focused on this • Due to the judgment involved in the allocation exercise and because of the risk of management bias given the low level of headroom when comparing value in use to net assets of the North America Intacct CGU; and • the directors' assessment of this 'value in use' involves judgement about the future performance of the newly acquired business and the discount rates applied to future cash flow forecasts.	**Allocation of goodwill arising from the acquisition of Intacct** We challenged management around the appropriateness of the approach taken to allocate goodwill arising from the acquisition of Intacct to other CGUs. Specifically: • We assessed management's basis for allocating goodwill to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination. We reviewed the board papers and public pronouncements in respect of this matter and discussed with members of the Board in order to understand the timing and maturity of the plan to internationalise the Intacct product. • We evaluated the appropriateness of the discounted cashflows technique used to allocate goodwill and tested the integrity of the model used. • We assessed the basis for key underlying assumptions for the cashflows included in the allocation model for the UKI CGU, including levels of new customer acquisition, average customer values and net customer churn rates. We considered their appropriateness compared to the performance of the Group's existing North America business and industry data for this market. • With assistance from EY valuation specialists, we evaluated the reasonableness of the discount rate applied in the allocation model, with specific consideration of the risk of a new product launch in the UK. **Recoverability of North America Intacct goodwill** We audited management's estimation of the recoverable value of the North America Intacct CGU. Specifically: • We tested the methodology applied in the value in use calculation as compared to the requirements of IAS 36, Impairment of Assets, including the appropriateness of the period of the forecast, and the mathematical accuracy of management's model. • We have evaluated management's forecasting for Intacct since acquisition through comparison of current year performance to forecast. • Where the forecasts differed from the original acquisition plan used in the purchase price allocation, we assessed for reasonableness the explanations provided by management. • We evaluated the key underlying assumptions used in the valuation including cash flow forecasts, discounts rates and long term growth rates. We considered evidence available to support these assumptions and their consistency with findings from other areas of our audit. • With assistance from EY valuation specialists, we performed audit procedures on the reasonableness of the discount rates and long term growth rates used by management, including comparison to economic and industry forecasts where appropriate. • We performed downside sensitivity analyses on key assumptions, including combinations thereof, in the model to understand the parameters that, should they arise, cause an impairment of goodwill. We considered the appropriateness of the related disclosures provided in note 6.1 in the Group financial statements, in particular the disclosure of forecast period used in the value in use calculation and additional sensitivity disclosures. The entire goodwill balance that arose from the acquisition of Intacct was subject to full scope audit procedures by the Primary audit team.	We concluded that: • the methodology applied is reasonable and we have not identified any evidence that the allocation of the Intacct goodwill is materially incorrect based on the forecasts and discount rate applied; • the allocation of the Intacct goodwill is however highly sensitive to key assumptions; and • we agree with management's conclusion that no impairment of Intacct goodwill is required in the current year and noted that the allocation exercise had no impact on this conclusion. We concur with management that additional sensitivity disclosures are required in note 6.1 of the Group financial statements on the basis that a reasonably possibly change in assumptions would result in a material impairment of goodwill in the Intacct Cash Generating Unit.

In the prior year, the key audit matters included within our auditor's report included risks in relation to the Intacct acquisition – provisional value of acquired intangible assets; carrying value of goodwill and classification of restructuring costs as non-recurring, as a result of the Group's business transformation. In the current year, these risks are no longer assessed as key audit matters on the basis that there were no significant adjustments in the finalisation of the purchase price allocation for Intacct, with the exception of the Intacct cash generating unit (CGU) there is sufficient headroom within the goodwill testing for the Group's other CGUs and no business transformation costs are reported as non-recurring in the year.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as prior year external audit findings and recent Internal Audit results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 21 reporting components of the Group, we selected 11 components covering entities within United Kingdom and Ireland, France, North America, Spain, Germany, Brazil and South Africa which represent the principal business units within the Group.

Of the 11 components selected, we performed an audit of the complete financial information of six components ("full scope components") which were selected based on their size or risk characteristics. For the remaining five components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. For the remaining 10 components, audit procedures were undertaken as set out in note 4 below to respond to any potential risks of material misstatement to the Group financial statements.

	2018				2017		
Reporting components	Number	% Group adjusted Profit before tax*	% Group Revenue	See note	Number	% Group adjusted Profit before tax	% Group Revenue
Full scope	**6**	**81%**	**60%**	**1,2**	6	68%	59%
Specific scope	**5**	**19%**	**29%**	**2,3**	5	30%	30%
Full and specific scope coverage	**11**	**100%**	**89%**		11	98%	89%
Remaining components	**10**	**0%**	**11%**	**4**	13	2%	11%
Total Reporting components	**21**	**100%**	**100%**		24	100%	100%

1 Three of the six full scope components relate to the parent Company and other corporate entities whose activities include the Group's treasury management and consolidation adjustments. The Group audit risk in relation to the allocation of goodwill arising from Intacct and recoverability of goodwill allocated to the Intacct CGU was subject to audit procedures by the Primary audit team on the entire balance.
2 The Group audit risk in relation to revenue recognition was subject to full audit procedures at each of the full and specific scope locations with significant revenue streams.
3 The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts selected for testing by the Primary audit team.
4 The remaining 10 components contributed a net (0)% of adjusted Profit before tax* and the individual contribution of these components ranged from 3% to (4)% of the Group's adjusted Profit before tax*. We instructed one component team to undertake specified procedures over certain cash balances and trade and other payables at one location and another component team to undertake specified procedures over trade receivables. For three components, including Asia, Australia and Middle East, the Primary audit team performed review scope procedures. For the remaining components, the Primary audit team performed other procedures, including overall analytical review procedures and testing of consolidation journals, intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statements.

* Profit before tax and non-recurring items as defined in the 'Our application of materiality' section of this report.

Changes from the prior year

The change in the total number of reporting components from 24 to 21 reflects the disposal of the North America payments business, the combination of Singapore and Malaysia into one component, and the removal of Sage Technologies as a separate component.

Involvement with component teams

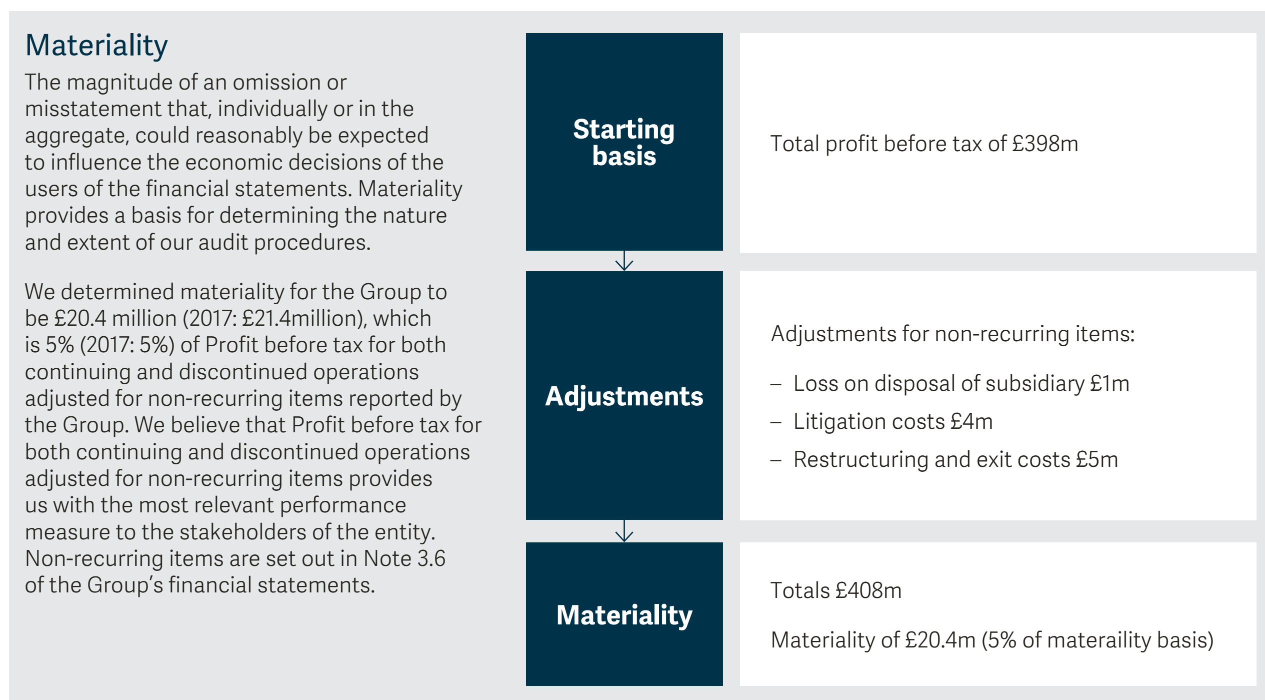
In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the Primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the six full scope components, audit procedures were performed on three of these directly by the Primary audit team and three by component audit teams. For the five specific scope components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The Group audit team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor, or another Group audit partner, would visit all full and selected specific scope audit locations. During the current year's audit cycle, visits were undertaken at least once by the primary audit team to the component teams in the UK, France, Brazil, Spain, North America and South Africa. These visits involved discussing the audit approach with the component team and any issues arising from their work, reviewing relevant key audit working papers on the Group risk areas, and meeting with local management to discuss the component's business performance and matters relating to the local finance organisation including the internal financial control environment. The primary team interacted regularly with the component teams where

appropriate during various stages of the audit, reviewed relevant key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.



During the course of our audit, we reassessed initial materiality and the only change in the final materiality from our original assessment at planning was to reflect the actual reported performance of the Group in the year.

We determined materiality for the Parent Company to be £28.7 million (2017: £28.9 million), which is 1% (2017: 1%) of equity. Equity is an appropriate basis to determine materiality. Any balances in the parent Company financial statements that were relevant to our audit of the consolidated group were audited using an allocation of group performance materiality.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2017: 50%) of our planning materiality, namely £10.2m (2017: £10.8m). Our performance materiality percentage has remained at 50% to reflect the risk associated with the ongoing changes across the finance organisation that commenced during FY16, and which included in 2018 for Switzerland, Austria and Germany the implementation of their respective X3 ERP system for certain processes and the stabilisation of the Financial Shared Services Centres.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £1.0m to £5.7m (2017: £1.1m to £6.0m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit and Risk Committee that we would report to them all uncorrected audit differences in excess of £1.0m (2017: £1.1m), which is set at 5% of materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report as set out on pages 2 to 133, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 133 – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit and Risk Committee reporting set out on page 93 – the section describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on page 75 – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R (2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 133, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRS, FRS 102, the Companies Act 2006 and UK Corporate Governance Code) and the relevant tax compliance regulations in the jurisdictions in which the group operates.
- We understood how the Group is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the company secretary. We corroborated our enquiries through our review of board minutes and papers provided to the Audit and Risk Committee as well as consideration of the results of our audit procedures across the Group.

- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur, by meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud and on those specific areas of financial reporting more prevalent in whistleblowing incidences. We also considered performance targets and their propensity to influence on efforts made by management to manage earnings particularly in the light of the revised market guidance issued in April 2018. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk or other risk of material misstatement. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved: journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business; enquiries of legal counsel, group management, internal audit, Country management and all full and specific scope management; and focused testing, as referred to in the key audit matters section above.

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

Other matters we are required to address

- We were appointed by the Company at the AGM on 28 February 2018 to audit the financial statements for the year ended 30 September 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is four years, covering the years ended 30 September 2015, 30 September 2016, 30 September 2017 and 30 September 2018.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent Company and we remain independent of the Group and the parent Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit and Risk Committee.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Alison Duncan (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
20 November 2018

The following foot note should be added to the audit report when it is published or distributed electronically:

Notes:
1 The maintenance and integrity of The Sage Group plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED INCOME STATEMENT

For the year ended 30 September 2018

	Note	**Underlying 2018 £m**	**Adjustments (note 3.6) 2018 £m**	**Statutory 2018 £m**	Underlying as reported* 2017 £m	Adjustments (note 3.6) 2017 £m	Statutory 2017 £m
Revenue	2.1, 3.1	**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	2.2, 3.2, 3.3, 3.6	**504**	**(77)**	**427**	467	(119)	348
Share of loss of an associate	8	**–**	**–**	**–**	–	(1)	(1)
Gain on remeasurement of existing investment in an associate	3.6	**–**	**–**	**–**	–	13	13
Finance income	3.5	**4**	**1**	**5**	2	8	10
Finance costs	3.5	**(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	16.3	**–**	**–**	**–**	18	25	43
Profit for the year		**352**	**(57)**	**295**	345	(45)	300
Profit attributable to:							
Owners of the parent		**352**	**(57)**	**295**	345	(45)	300
Earnings per share attributable to the owners of the parent (pence)							
From continuing operations							
– Basic	5	**32.51p**		**27.21p**	30.28p		23.86p
– Diluted	5	**32.35p**		**27.07p**	30.18p		23.78p
From continuing and discontinued operations							
– Basic	5	**32.51p**		**27.21p**	31.90p		27.80p
– Diluted	5	**32.35p**		**27.07p**	31.79p		27.71p

Note:

* Underlying as reported is at 2017 reported exchange rates.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September 2018

	Note	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	11, 15.4	**–**	4
Deferred tax charge on actuarial gain on post-employment benefit obligations	4, 15.4	**–**	(1)
		–	3
Items that may be reclassified to profit or loss:			
Deferred tax credit on foreign currency movements	4, 15.3	**–**	2
Gain on available-for-sale fixed asset investment	14.1	**1**	–
Exchange differences on translating foreign operations	15.3	**15**	(26)
Exchange differences recycled through income statement on sale of foreign operations	15.3	**–**	(32)
		16	(56)
Other comprehensive income/(expense) for the year, net of tax		**16**	(53)
Total comprehensive income for the year		**311**	247
Total comprehensive income for the year attributable to:			
Owners of the parent		**311**	247

CONSOLIDATED BALANCE SHEET

As at 30 September 2018

	Note	2018 £m	2017 Restated* £m
Non-current assets			
Goodwill	6.1	**2,008**	2,002
Other intangible assets	6.2	**260**	274
Property, plant and equipment	7	**129**	133
Fixed asset investment	14.1	**17**	15
Other financial assets		**3**	2
Deferred income tax assets	12	**51**	61
		2,468	2,487
Current assets			
Inventories	9.1	**1**	3
Trade and other receivables	9.2	**459**	466
Current income tax asset		**4**	14
Cash and cash equivalents (excluding bank overdrafts)	13.3	**272**	231
Assets classified as held for sale	16.3	**113**	1
		849	715
Total assets		**3,317**	3,202
Current liabilities			
Trade and other payables	9.3	**(249)**	(337)
Current income tax liabilities		**(39)**	(18)
Borrowings	13.4	**(8)**	(55)
Provisions	10	**(26)**	(37)
Deferred income	3.1	**(620)**	(585)
Liabilities classified as held for sale	16.3	**(63)**	(1)
		(1,005)	(1,033)
Non-current liabilities			
Borrowings	13.4	**(913)**	(914)
Post-employment benefits	11	**(22)**	(22)
Deferred income tax liabilities	12	**(25)**	(25)
Provisions	10	**(11)**	(31)
Trade and other payables		**(8)**	(5)
Deferred income	3.1	**(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	15.1	**12**	12
Share premium		**548**	548
Other reserves	15.3	**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 16.1).

The consolidated financial statements on pages 144 to 201 were approved by the Board of Directors on 20 November 2018 and are signed on their behalf by:

Steve Hare
Chief Executive Officer and Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 September 2018

	Note	Ordinary shares £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
					Attributable to owners of the parent	
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	15.3	**–**	**–**	**15**	**–**	**15**
Gain on available-for-sale fixed asset investment	14.1, 15.4	**–**	**–**	**–**	**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	15.4	**–**	**–**	**–**	**16**	**16**
Proceeds from issuance of treasury shares	15.4	**–**	**–**	**–**	**3**	**3**
Dividends paid to owners of the parent	15.4, 15.5	**–**	**–**	**–**	**(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**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 September 2017

	Note	Ordinary shares £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
					Attributable to owners of the parent	
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	15.3	–	–	(26)	–	(26)
Exchange differences recycled through income statement on sale of foreign operations	15.3	–	–	(32)	–	(32)
Deferred tax credit on foreign currency movements	4, 15.3	–	–	2	–	2
Actuarial gain on post-employment benefit obligations	11, 15.4	–	–	–	4	4
Deferred tax charge on actuarial gain on post-employment obligations	4, 15.4	–	–	–	(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	15.4	–	–	–	9	9
– Value of employee services on acquisition	15.4	–	–	–	21	21
Purchase of treasury shares	15.4	–	–	–	(9)	(9)
Dividends paid to owners of the parent	15.4, 15.5	–	–	–	(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	13.1	**487**	403
Interest paid		**(30)**	(24)
Income tax paid		**(64)**	(102)
Operating cash flows generated from discontinued operations	16.3	**–**	25
Net cash generated from operating activities		**393**	302
Cash flows from investing activities			
Acquisitions of subsidiaries, net of cash acquired	16.1	**(8)**	(693)
Proceeds on settlement of debt investment		**–**	7
Purchases of intangible assets	6.2	**(36)**	(22)
Purchases of property, plant and equipment	7	**(20)**	(30)
Proceeds from sale of property, plant and equipment		**2**	–
Interest received	3.5	**4**	2
Disposal of discontinued operations	16.3	**–**	158
Net cash used in investing activities		**(58)**	(578)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**–**	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	15.5	**(171)**	(157)
Financing cash flows generated from discontinued operations	16.3	**–**	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	13.2	**2**	(4)
Net increase/(decrease) in cash, cash equivalents and bank overdrafts		**109**	(47)
Cash, cash equivalents and bank overdrafts at 1 October	13.2	**213**	260
Cash, cash equivalents and bank overdrafts at 30 September	13.2	**322**	213

BASIS OF PREPARATION AND CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

1 Basis of preparation and critical accounting estimates and judgements

Accounting policies applicable across the financial statements are shown below. Accounting policies that are specific to a component of the financial statements have been incorporated into the relevant note.

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 16.1.

All figures presented are rounded to the nearest £m, unless otherwise stated.

New or amended accounting standards.

There are no IFRS, IAS amendments or IFRIC interpretations effective for the first time this financial year that have had a material impact on the Group.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report on pages 1 to 73.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future, for a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements, in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

Foreign currencies

The consolidated financial statements are presented in sterling, which is the functional currency of the parent Company and the presentation currency for the consolidated financial statements.

Foreign currency transactions are recorded at the rates of exchange prevailing on the dates of the transactions. Foreign currency monetary items are translated at the rates prevailing at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlements of monetary items and on the retranslation of monetary items are included in profit or loss for the period, except for foreign currency movements on intercompany balances where settlement is not planned or likely in the foreseeable future, in which case they are recognised in other comprehensive income. Foreign exchange movements on external borrowings which are designated as a hedge of the net investment in its related subsidiaries are recognised in the translation reserve.

The assets and liabilities of the Group's subsidiaries outside of the UK are translated into sterling using period-end exchange rates. Income and expense items are translated at the average exchange rates for the period. Where differences arise between these rates, they are recognised in other comprehensive income and the translation reserve.

When a foreign operation is partially disposed of or sold, exchange differences that were recorded in other comprehensive income are recycled in the income statement as part of the gain or loss on sale, with the exception of exchange differences recorded in equity prior to the transition to IFRS on 1 October 2004, in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards".

1 Basis of preparation and critical accounting estimates and judgements continued

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.

The judgements and management's rationale in relation to these accounting estimates and judgements are assessed and where material in value or in risk, are discussed with the Audit and Risk Committee.

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. At this point the business partner is able to sell on the licence to the end user at a price of its determination and consequently bears the credit risk of the onward sale.

Where the business partner is a customer of Sage, there are two ways in which they can be remunerated. Firstly, there are discounts granted as a discount from the list price. These discounts are negotiated between the Company and the business partner prior to the sale and invoices are raised, and revenue booked is based on the discounted price. Secondly, there are further discounts given to business partners for subsequent renewals or increased sales to the end user. These discounts are recognised as a deduction from the incremental revenue earned.

Where the business partner is not a customer of Sage and their part in the sale has simply been in the form of a referral, they are remunerated in the form of a commission payment. These payments are treated as a cost within selling and administrative costs.

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. When products are bundled together for the purpose of sale, the associated revenue, net of all applicable discounts, is allocated between the constituent parts of the bundle on a relative fair value basis. The Group has a systematic basis for allocating relative fair values in these situations, based upon published list prices.

Goodwill impairment

A key judgement is the ongoing appropriateness of the cash-generating units ("CGUs") for the purpose of impairment testing. In the current year CGUs were assessed in the context of the Group's evolving business model, the Sage strategy and the shift to global product development. The Group's management structure has evolved during the year and as a result certain CGUs have been grouped together for the purposes of goodwill monitoring and impairment testing. Subject to this change, it was determined that the use of CGUs based on geographical area of operation remains appropriate.

The allocation of goodwill on the acquisition of Sage Intacct to the CGUs expected to benefit from the acquisition, required significant judgement. This was made on the basis of where Sage Intacct products are expected to be introduced in these territories in future years.

The assumptions applied in calculating the value in use of the CGUs being tested for impairment is a source of estimation uncertainty. The key assumptions applied in the calculation relate to the future performance expectations of the business – average medium-term revenue growth and long-term growth rate – as well as the discount rate to be applied in the calculation.

These key assumptions used in performing the impairment assessment, and further information on the level at which goodwill is monitored and the allocation of goodwill from Sage Intacct, are disclosed in note 6.1.

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 the use of estimates. There have been no significant business combinations in the year which required significant 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). 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. During the current year, these amounts have been finalised resulting in adjustments to the amount of deferred tax and goodwill arising on the acquisition. An explanation of the changes and the impact on the prior year consolidated balance sheet is set out in note 16. The note also includes an explanation of the accounting policy applied to business combinations.

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"; and
- 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 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;
- 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.

1 Basis of preparation and critical accounting estimates and judgements continued

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 of 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. Information on the Group's operating lease commitments is disclosed in note 3.4, and the amount of operating lease rentals payable recognised as an expense within operating profit from continuing operations is included in note 3.2.

2 Segment information

This note shows how Group revenue and Group operating profit are generated across the three reportable segments in which we operate, being Northern Europe, Central and Southern Europe and North America. The Group's operations in Africa and the Middle East, Asia (including Australia) and Latin America do not meet the quantitative thresholds for disclosure as reportable segments under IFRS 8, and so are presented together in the analyses and described as International. This is explained further below.

For each geographical region, revenue and operating profit are compared to prior year in order to understand the movements in the year. This comparison is provided for statutory, underlying and organic revenue and statutory and underlying operating profit.

- Statutory results reflect the Group's results prepared in accordance with the requirements of IFRS.
- "Underlying" and "underlying as reported" are non-GAAP measures. Adjustments are made to statutory results to arrive at an underlying result which is in line with how the business is managed and measured on a day-to-day basis. Adjustments are made for items that are individually important in order to understand the financial performance. If included, these items could distort understanding of the performance for the year and the comparability between periods. Management applies judgement in determining which items should be excluded from underlying performance. See note 3.6 for details of these adjustments.

In addition, the prior year underlying amounts are translated at current year exchange rates, so that exchange rate impacts do not distort comparisons. Prior year underlying amounts at prior year exchange rates are "underlying as reported"; prior year and current year amounts at current year exchange rates are "underlying".

- Organic is a non-GAAP measure. The contributions from discontinued operations, disposals and assets held for sale of standalone businesses in the current and prior period are removed so that results can be compared to the prior year on a like-for-like basis. Results from acquired businesses are excluded in the year of acquisition. Adjustments are made to the comparative period to present prior period 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.

In addition, the following reconciliations are made in this note.

- Revenue per segment reconciled to the profit for the year as per the income statement.
- Statutory operating profit reconciled to underlying operating profit per segment (detailing the adjustments made).

Accounting policy

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.

Segment reporting

The tables overleaf show a segmental analysis of the results for continuing operations.

The revenue analysis in the table overleaf 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 categories are defined in note 3.1.

2 Segment information continued

2.1 Revenue by segment

	Year ended 30 September 2018					Change		
	Statutory £m	**Underlying adjustments £m**	**Underlying £m**	**Organic adjustments* £m**	**Organic £m**	Statutory	Underlying	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%

	Year ended 30 September 2017						
	Statutory £m	Underlying adjustments £m	Underlying as reported £m	Impact on 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")							
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 16). The prior year adjustments also include the 2017 acquisitions of Intacct and Sage People.

2.2 Operating profit by segment

	Year ended 30 September 2018					Change	
	Statutory £m	**Underlying adjustments £m**	**Underlying £m**	**Organic adjustments £m**	**Organic £m**	Statutory	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

The results by segment from continuing operations were as follows:

Year ended 30 September 2018	Note	**Northern Europe £m**	**Central and Southern Europe £m**	**North America £m**	**Total reportable segments £m**	**International £m**	**Group £m**
Revenue		**380**	**625**	**574**	**1,579**	**267**	**1,846**
Segment statutory operating profit		**130**	**174**	**94**	**398**	**29**	**427**
Finance income	3.5						**5**
Finance costs	3.5						**(34)**
Profit before income tax							**398**
Income tax expense	4						**(103)**
Profit for the year – continuing operations							**295**

Reconciliation of underlying operating profit to statutory operating profit

	Northern Europe £m	**Central and Southern Europe £m**	**North America £m**	**Total reportable segments £m**	**International £m**	**Group £m**
Underlying operating profit	**141**	**184**	**149**	**474**	**30**	**504**
Amortisation of acquired intangible assets (note 3.6)	**(3)**	**(5)**	**(26)**	**(34)**	**(1)**	**(35)**
Other acquisition-related items (note 3.6)	**(4)**	**–**	**(28)**	**(32)**	**–**	**(32)**
Non-recurring items (note 3.6)	**(4)**	**(5)**	**(1)**	**(10)**	**–**	**(10)**
Statutory operating profit	**130**	**174**	**94**	**398**	**29**	**427**

2 Segment information continued

2.2 Operating profit by segment continued

The results by segment from continuing operations were as follows:

Year ended 30 September 2017	Note	Northern Europe £m	Central and Southern Europe £m	North America £m	Total Reportable segments £m	International £m	Group £m
Revenue		368	580	492	1,440	275	1,715
Segment statutory operating profit		135	129	65	329	19	348
Share of loss of an associate							(1)
Gain on remeasurement of existing investment in an associate							13
Finance income	3.5						10
Finance costs	3.5						(28)
Profit before income tax							342
Income tax expense	4						(85)
Profit for the year – continuing operations							257

Reconciliation of underlying operating profit to statutory operating profit

	Northern Europe £m	Central and Southern Europe £m	North America £m	Total reportable segments £m	International £m	Group £m
Underlying operating profit as reported	160	162	109	431	36	467
Amortisation of acquired intangible assets (note 3.6)	(4)	(5)	(9)	(18)	(4)	(22)
Other acquisition-related items (note 3.6)	(6)	–	(21)	(27)	–	(27)
Non-recurring items (note 3.6)	(15)	(28)	(14)	(57)	(13)	(70)
Statutory operating profit	135	129	65	329	19	348

2.3 Analysis by geographic location

Management deems countries which generate more than 10% of total Group revenue to be material. Additional disclosures have been provided below to show the proportion of revenue from these countries.

Revenue by individually significant countries	2018 £m	2017 £m
UK	**353**	343
France	**292**	278
USA	**486**	414
Other individually immaterial countries	**715**	680
	1,846	1,715

Management deems countries which contribute more than 10% to total Group non-current assets to be material. Additional disclosures have been provided below to show the proportion of non-current assets from these countries.

Non-current assets presented below excludes deferred tax assets, post-employment benefit assets and financial instruments.

Non-current assets by geographical location	2018 £m	2017 Restated* £m
UK	**416**	387
France	**243**	244
USA	**1,348**	1,419
Other individually immaterial countries	**390**	359
	2,397	2,409

* 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 16.1).

3 Profit before income tax

This note sets out the Group's profit before tax, by looking in more detail at the key operating costs, including a breakdown of the costs incurred as an employer, research and development costs, the cost of the external audit of the Group's financial statements and finance costs. This note also sets out the Group's revenue recognition policy.

In addition, this note analyses the future amounts payable under operating lease agreements, which the Group has entered into as at the year end. These commitments are not included as liabilities in the consolidated balance sheet.

This note also provides a breakdown of any material recurring and non-recurring items that have been reported separately on the face of the income statement.

3.1 Revenue

Accounting policy

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

The Group reports revenue under three revenue categories and the basis of recognition for each category is described below:

Category and Examples	Accounting Treatment
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.

When products are bundled together before being sold to the customer, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. The associated revenue is allocated between the constituent parts of the bundle on a relative fair value basis. When customers are offered discounts on bundled products and/or services, the combined discount is allocated to the constituent elements of the bundle, based upon publically available list prices.

3 Profit before income tax continued

3.2 Operating profit

Accounting policy

Cost of sales includes items such as third party royalties, transaction and credit card fees related to the provision of payment processing services and the cost of hardware and inventories. These also include the third party costs of providing training and professional services to customers. All other operating expenses incurred in the ordinary course of business are recorded in selling and administrative expenses.

The following items have been included in arriving at operating profit from continuing operations	Note	2018 £m	2017 £m
Staff costs		**837**	768
Depreciation of property, plant and equipment	7	**20**	22
Amortisation of intangible assets	6.2	**48**	36
Loss/(gain) on disposal of subsidiary	3.6	**1**	(3)
Other operating lease rentals payable		**27**	24
Other acquisition-related items	3.6	**32**	27

The Group within both continuing and discontinued operations incurred £192m (2017: £179m) of research and development expenditure in the year, of which £174m (2017: £154m) relates to total Group staff costs included above. See note 6.2 for the research and development accounting policy. The Group also incurred £nil (2017: £73m) of transformation costs. See note 3.6 for a detailed explanation of these costs.

Services provided by the Group's auditor and network firms

During the year, the Group (including its overseas subsidiaries) obtained the following services from the Group's auditor at costs as detailed below:

	2018 £m	2017 £m
Fees payable to the Group's auditor for the audit of the Plc's companies and the consolidated accounts	**2**	2
Fees payable to the Group's auditor for the audit of the Company's subsidiaries	**2**	2
Fees payable to the Group's auditor for audit-related assurance services	**–**	–
Total audit and audit related services	**4**	4
Tax compliance services	**–**	–
Tax advisory services	**–**	–
Other non-audit services	**–**	–
Total fees	**4**	4

A summary of the Board's policy in respect of the procurement of non-audit services for the Group's auditor is set out on page 100.

3.3 Employees and Directors

Average monthly number of people employed (including Directors)	2018 number	2017 number
By segment:		
Northern Europe	**3,109**	2,934
Central and Southern Europe	**4,396**	4,429
North America	**2,704**	2,627
International	**3,451**	3,805
	13,660	13,795

Staff costs (including Directors on service contracts)	Note	2018 £m	2017 £m
Wages and salaries		**706**	674
Social security costs		**100**	93
Post-employment benefits	11	**13**	12
Share-based payments	15.2	**18**	10
		837	789

Average monthly number of people employed and staff costs are for the whole Group and therefore include both continuing and discontinued operations.

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

Key management personnel are deemed to be members of the Executive Committee as shown on pages 78 to 79. The key management figures given above include the Executive Directors of the Group.

3.4 Operating lease commitments

Accounting policy

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Total future minimum lease payments under non-cancellable operating leases falling due for payment as follows:	2018 Property, vehicles, plant and equipment £m	2017 Property, vehicles, plant and equipment £m
Within one year	**30**	28
Later than one year and less than five years	**89**	93
After five years	**32**	37
	151	158

The Group leases various offices and warehouses under non-cancellable operating lease agreements. These leases have various terms, escalation clauses and renewal rights. The Group also leases vehicles, plant and equipment under non-cancellable operating lease agreements.

3 Profit before income tax continued

3.5 Finance income and costs

Accounting policy

Finance income and costs are recognised using the effective interest method. Finance costs are recognised in the income statement simultaneously with the recognition of an increase in a liability or the reduction in an asset. Derivative financial instruments are measured at fair value through profit or loss. Foreign currency movements on intercompany balances are recognised in the profit and loss account unless settlement is not planned or likely in the foreseeable future, in which case they are recognised in other comprehensive income.

	2018 £m	2017 £m
Finance income:		
Interest income on short-term deposits	**4**	2
Foreign currency movements on intercompany balances	**1**	1
Fair value adjustments to debt-related financial instruments	**–**	7
Finance income	**5**	10
Finance costs:		
Finance costs on bank borrowings	**(14)**	(7)
Finance costs on US senior loan notes	**(17)**	(19)
Fair value adjustments to debt-related financial instruments	**(1)**	(1)
Amortisation of issue costs	**(2)**	(1)
Foreign currency movements on intercompany balances	**–**	–
Finance costs	**(34)**	(28)
Finance costs – net	**(29)**	(18)

3.6 Adjustments between underlying and statutory results

Accounting policy

The business is managed and measured on a day-to-day basis using underlying results. To arrive at underlying results, certain adjustments are made for items that are individually important and which could, if included, distort the understanding of the performance for the year and the comparability between periods.

Management applies judgement in determining which items should be excluded from underlying performance.

Recurring items
These are items which occur regularly but which management judge to have a distorting effect on the underlying results of the Group. These items relate mainly to fair value adjustments on financial instruments and merger and acquisition ("M&A") related activity, although other types of recurring items may arise. M&A activity by its nature is irregular in its impact and includes amortisation, adjustments to acquired deferred income and acquisition and disposal-related costs, including integration costs relating to an acquired business and acquisition-related remuneration. Foreign currency movements on intercompany balances that are charged through the income statement are excluded from underlying so that exchange rate impacts do not distort comparisons. Recurring items are adjusted each year irrespective of materiality to ensure consistent treatment.

Non-recurring items
These are items which are non-recurring and are adjusted on the basis of either their size or their nature. These items can include, but are not restricted to, gains and losses on the disposal of assets, impairment charges and reversals, and restructuring-related costs. As these items are one-off or non-operational in nature, management considers that they would distort the Group's underlying business performance.

	Recurring 2018 £m	Non-recurring 2018 £m	Total 2018 £m	Recurring 2017 £m	Non-recurring 2017 £m	Total 2017 £m
M&A activity-related items						
Amortisation of acquired intangibles	**35**	**–**	**35**	22	–	22
Loss/(gain) 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. Further details including specific accounting policies in relation to these assets can be found in note 6.2.

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, see note 16.

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) relates 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 costs arising from 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 16.3.

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).

See note 4 for the tax impact of these adjustments.

4 Income tax expense

This note analyses the tax expense for this financial year which includes both current and deferred tax. Current tax expense represents the amount payable on this year's taxable profits and any adjustments relating to prior years. Deferred tax is an accounting adjustment to recognise liabilities or benefits that are expected to arise in the future due to differences between the carrying values of assets and liabilities and their respective tax bases.

This note outlines the tax accounting policies, analyses the current and deferred tax expenses in the year and presents a reconciliation between profit before tax in the income statement multiplied by the UK rate of corporation tax and the tax expense for the year.

Accounting policy

The taxation expense for the year represents the sum of current tax payable and deferred tax. The expense is recognised in the income statement, in the statement of comprehensive income or in equity according to the accounting treatment of the related transaction.

Current tax payable or receivable is based on the taxable income for the period and any adjustment in respect of prior periods. Current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax arises due to certain temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases (note 12).

Analysis of expense in the year	Note	2018 £m	2017 £m
Current income tax			
– Current tax on profit for the year		**103**	98
– Adjustment in respect of prior years		**–**	(8)
Current income tax on continuing operations		**103**	90
Current income tax on discontinued operations		**–**	13
		103	103
Deferred tax			
Origination and reversal of temporary differences		**–**	(7)
Impact of rate changes		**(4)**	–
Adjustment in respect of prior years		**4**	2
Deferred tax	12	**–**	(5)
The current year tax expense is split into the following:			
Underlying tax expense		**123**	115
Tax credit on adjustments between the underlying and statutory operating profit		**(17)**	(30)
Tax only adjustments between the underlying and statutory operating profit		**(3)**	–
Income tax expense on continuing operations		**103**	85
Income tax expense on discontinued operations		**–**	13
Income tax expense reported in income statement		**103**	98

	2018 £m	2017 £m
Tax on items credited to other comprehensive income		
Deferred tax charge on actuarial gain on post-employment benefit obligations	**–**	1
Deferred tax credit on foreign exchange movements	**–**	(2)
Total tax on items credited to other comprehensive income	**–**	(1)

Deferred tax charge relating to share options of £2m (2017: charge of £1m) has been recognised directly in equity.

The tax for the year is higher (2017: higher) than the rate of UK corporation tax applicable to the Group of 19% (2017: 19.5%). The differences are explained below:

	2018 £m	2017 £m
Profit before income tax from continuing operations	**398**	342
Profit before income tax from discontinued operations	**–**	56
Total profit before income tax	**398**	398
Statutory profit before income tax multiplied by the rate of UK corporation tax of 19% (2017: 19.5%)	**76**	78
Tax effects of:		
Adjustments in respect of prior years	**4**	(6)
Foreign tax rates in excess of UK rate of tax	**26**	38
US tax reform	**(3)**	–
Tax on disposals	**–**	(9)
Non-deductible expenses and permanent items	**(1)**	1
Other corporate taxes (withholding tax, business tax)	**5**	1
Tax incentive claims	**(5)**	(2)
Recognition of tax losses and amortisation	**1**	(3)
At the effective income tax rate of 26% (2017: 25%)	**103**	98
Income tax expense reported in the income statement	**103**	85
Income tax attributable to discontinued operations	**–**	13
	103	98

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%).

The effective tax rate is higher than the UK corporation tax rate applicable to the Group primarily due to the geographic profile of the Group, the inclusion of local business taxes in the corporate tax expense offset by innovation tax credits for registered patents and research and development activities which are government tax incentives in a number of operating territories.

The Group recognises certain provisions and accruals in respect of tax which involve a degree of estimation and uncertainty where the tax treatment cannot finally be determined until a resolution has been reached by the relevant tax authority. This approach resulted in providing £27m as at 30 September 2018 (2017: £25m).

The carrying amount is sensitive to a number of issues which is not always within the control of the Group and it is often dependent on the efficiency of the legal processes in the relevant taxing jurisdictions in which the Group operates. Issues can take many years to resolve and assumptions on the likely outcome have therefore been made by management.

The nature of the assumptions made by management when calculating the carrying amounts relates to the estimated tax which could be payable as a result of decisions with tax authorities in respect of transactions and events whose treatment for tax purposes is uncertain. In making the estimates, management's judgement was based on various factors including:

- the status of recent and current tax audits and enquiries;
- the results of previous claims; and
- any changes to relevant tax environments.

When making this assessment, we utilise our specialist in-house tax knowledge and experience of similar situations elsewhere to confirm these provisions. These judgements also take into consideration specialist tax advice provided by third-party advisers on specific items.

US Reform

On 22 December 2017, the US President signed the Tax Cuts and Jobs Act, which provides for significant and wide-ranging changes to the taxation of corporations. The reforms are complex and regulations are required to prescribe their application. Whilst the headline change is a reduction in the federal income tax rate from 35% to 21%, a significant number of additional measures have been incorporated into the US law which increase taxes payable. The most material tax adjustment included within these financial statements, as a result of the reduction in the Federal tax rate, is the recognition of a tax benefit of £4m due to a re-measurement of US deferred tax assets and liabilities at the new lower 21% federal tax rate. This credit is offset by a transition charge of £1m. The net credit of £3m is excluded from underlying earnings as a non-recurring credit. The provisions and the regulations will continue to be monitored and evaluated as and when they are issued.

EU State Aid

The Group is monitoring developments in relation to EU State Aid investigations including the EU Commission's announcement on 26 October 2017 that it will be opening a State Aid investigation into the UK's Controlled Foreign Company regime. The Group may be affected by the final outcome of the Commission's review, as will other UK-based multinational groups that have financing arrangements in line with the UK's current legislation. We have calculated our maximum potential liability excluding penalties and interest to be £35m if the European Commission's review concludes that the Group Financing Exemption presents unlawful state aid and there are no successful appeals against the position. Based upon advice taken, we consider that no provision is required at this time. We will continue to monitor the position as the review develops.

5 Earnings per share

This note shows how earnings per share ("EPS") is calculated. EPS is the amount of post-tax profit attributable to each ordinary share. Diluted EPS shows what the impact would be if all potentially dilutive ordinary shares in respect of exercisable share options were exercised and treated as ordinary shares at the year end.

This note also provides a reconciliation between the statutory profit figure, which ties to the consolidated income statement, and the Group's internal measure of performance, underlying profit. See note 3.6 for details of the adjustments made between statutory and underlying profit, and note 4 for the tax impact on these adjustments.

Accounting policy

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.

Reconciliations of the earnings and weighted average number of shares	**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					
Basic earnings per share (pence)	**32.51**	30.28	29.95	**27.21**	23.86
Diluted earnings per share (pence)	**32.35**	30.18	29.85	**27.07**	23.78

Reconciliations of the earnings and weighted average number of shares	**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					
Basic earnings per share (pence)	**32.51**	31.90	31.45	**27.21**	27.80
Diluted earnings per share (pence)	**32.35**	31.79	31.34	**27.07**	27.71

Reconciliation of earnings – Continuing operations	2018 £m	2017 £m
Earnings – Statutory profit for the year attributable to owners of the parent	**295**	257
Adjustments:		
– 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 – underlying profit for the year (before exchange movement)	**352**	327
Exchange movement	**–**	(4)
Taxation on exchange movement	**–**	1
Net exchange movement	**–**	(3)
Earnings – underlying profit for the year (after exchange movement) attributable to owners of the parent	**352**	324

Reconciliation of earnings – Continuing and discontinued operations	2018 £m	2017 £m
Earnings – Statutory profit for the year attributable to owners of the parent	**295**	300
Adjustments:		
– 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 subsidiaries	**1**	(30)
– Foreign currency movements on intercompany balances	**(1)**	(1)
– Other M&A-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)**	(28)
Net adjustments	**57**	45
Earnings – underlying profit for the year (before exchange movement)	**352**	345
Exchange movement	**–**	(6)
Taxation on exchange movement	**–**	1
Net exchange movement	**–**	(5)
Earnings – underlying profit for the year (after exchange movement) attributable to owners of the parent	**352**	340

Exchange movement relates to the retranslation of prior year results to current year exchange rates as shown in the table on page 59 within the financial review.

6 Intangible assets

This note provides details of the non-physical assets used by the Group to generate revenues and profits. These assets include items such as goodwill, and other intangible assets such as brands, customer relationships, computer software, in-process R&D and technology which have predominantly been acquired as part of business combinations. These assets are initially measured at fair value, which is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

Goodwill represents the excess of the amount paid to acquire a business over the fair value of the identifiable net assets of that business at the acquisition date.

This section also explains the accounting policies applied and the specific judgements and estimates made by the Directors in arriving at the carrying value of these assets.

6.1 Goodwill

Accounting policy

Goodwill arising from the acquisition of a subsidiary represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's total identifiable net assets acquired. Goodwill is carried at cost less accumulated impairment losses.

Goodwill previously written off directly to reserves under UK GAAP prior to 1 October 1998 has not been reinstated and is not recycled to the income statement on the disposal of the business to which it relates.

Goodwill is tested for impairment annually and when circumstances indicate that it may be impaired. Goodwill is assessed for the purpose of impairment testing, at either the individual CGU level or group of CGUs, consistent with the level at which goodwill is monitored internally. Impairment is determined by assessing the recoverable amount of each CGU or group of CGUs to which the goodwill relates. When the recoverable amount of the CGU or group of CGUs is less than its carrying amount, an impairment loss is recognised.

At recognition, goodwill is allocated to those CGUs expected to benefit from the synergies of the combination.

	Note	2018 £m	2017 Restated* £m
Cost at 1 October		**2,115**	1,773
– Additions		**–**	572
– Disposals		**–**	(189)
– Transfer to held for sale	16.3	**(32)**	–
– Exchange movement		**17**	(41)
At 30 September		**2,100**	2,115
Impairment at 1 October		**113**	114
– Exchange movement		**(21)**	(1)
At 30 September		**92**	113
Net book amount at 30 September		**2,008**	2,002

* 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 16.1).

Goodwill additions in the prior year relate to the acquisitions of Intacct Corporation (£502m) and Sage People Limited (formerly Fairsail Limited) (£70m).

Goodwill disposed in the prior year related to North American Payments business.

Cash generating units

The following table shows the allocation of the carrying value of goodwill at the end of the reporting period by CGUs or group of CGUs:

	2018 £m	2017 Restated* £m
France	**225**	222
UK & Ireland	**287**	251
Sage Pay Europe	**26**	26
Central Europe	**85**	84
Iberia	**135**	134
North America		
– Sage Business Solutions Division (SBS)	**705**	717
– Sage Intacct	**466**	495
Africa and the Middle East	**32**	30
Australia	**28**	25
Asia	**19**	18
	2,008	2,002

* 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 16.1).

The grouping of CGUs has been updated in the year reflecting how the businesses are managed and the level at which goodwill is monitored. Germany (2017: £38m), Switzerland (2017: £39m) and Poland (2017: £7m) are now monitored as a group of CGUs referred to as "Central Europe". Spain (2017: £128m) and Portugal (2017: £6m) are now monitored as a group of CGUs referred to as "Iberia". South Africa (2017: £30m) and the Middle East (2017: £nil) are now monitored as a group of CGUs referred to as "Africa and the Middle East".

Following the acquisition of Sage Intacct in 2017, an exercise has been performed to allocate the goodwill recognised on the acquisition of Sage Intacct to the CGUs that are expected to benefit from the acquisition. The result of the allocation is to increase goodwill for the UK and Ireland CGU by £36m, Africa and the Middle East group of GCUs by £2m and Australia CGU by £4m with a decrease of £42m for the Sage Intacct GCU.

Annual goodwill impairment tests

The recoverable amount of a CGU or group of CGUs is determined as the higher of its fair value less costs of disposal and its value in use. In determining value in use, estimated future cash flows are discounted to their present value. The Group performed its annual test for impairment on 30 June 2018. In all cases, the 2019 budget and the approved Group plan for the three years following the current financial year form the basis for the cash flow projections for a CGU or group of CGUs with an extension of a further seven years for the Sage Intacct CGU to reflect the planned growth following its acquisition in 2017. Beyond the three-year Group plan period and additional seven-year period for the Sage Intacct CGU these projections are extrapolated using an estimated long-term growth rate. The key assumptions in the value in use calculations are the average medium-term revenue growth rates and the long-term growth rates of net operating cash flows.

- The average medium-term revenue growth rates represent the compound annual revenue growth for the first five (2017: five) years. The average medium-term revenue growth rate applied to CGUs reflects the specific rates for each territory.
- Long-term growth rates of net operating cash flows are assumed to be equal to the long-term growth rate in the gross domestic product of the country in which the CGU's operations are undertaken reflecting the specific rates for each territory.

Range of rates used across the different CGUs	**2018**	2017
– Average medium-term revenue growth rates*	**4%-22%**	4%-13%
– Long-term growth rates to net operating cash flows	**1%-4%**	1%-4%

* Average medium-term revenue growth rate is calculated on value in use projections that exclude intercompany revenue.

6 Intangible assets continued

6.1 Goodwill continued

In accordance with IAS 36, key assumptions for the value in use calculations are disclosed for those CGUs and groups of CGUs where significant goodwill is held. These are deemed by management to be CGUs or groups of CGUs holding more than 10% of total goodwill. The discount rate, average medium-term revenue growth rate and long-term growth rate assumptions used for the value in use calculation for these are shown below:

2018	Local discount rate (post-tax)	Approximate local discount rate (pre-tax) equivalent	Long-term growth rate	Average medium-term revenue growth rate*
– UKI	**7.9%**	**9.1%**	**2.1%**	**4.5%**
– France	**7.7%**	**9.8%**	**1.7%**	**5.2%**
– North America – SBS	**8.9%**	**11.6%**	**1.9%**	**5.8%**
– North America – Sage Intacct	**10.5%**	**12.5%**	**1.9%**	**21.7%**

2017	Local discount rate (post tax)	Approximate local discount rate (pre-tax) equivalent	Long-term growth rate	Average medium-term revenue growth rate*
– UKI	8.6%	10.0%	2.1%	6.8%
– France	8.1%	10.8%	1.7%	5.5%
– North America – SBS	9.2%	14.4%	1.9%	6.4%
– North America – Sage Intacct**	n/a	n/a	n/a	n/a

* Average medium-term revenue growth rate is calculated on value in use projections that exclude intercompany revenue.

** Sage Intacct was acquired subsequent to the annual impairment test on 30 June 2017. Management concluded there was no trigging event or indicator that could have led to an impairment.

Discount rate

The Group uses a discount rate based on a local Weighted Average Cost of Capital ("WACC") for each CGU or group of CGUs, applying local government yield bonds and tax rates to each CGU or group of CGUs on a geographical basis. The discount rate applied to a CGU or group of CGUs represents a post-tax rate that reflects the market assessment of the time value of money as at 30 June 2018 and the risks specific to the CGU or group of CGUs. The post-tax discount rates applied to CGUs or group of CGUs were in the range of 7.2% (2017: 6.9%) to 15.3% (2017: 15.3%), reflecting the specific rates for each territory.

Sensitivity analysis

A sensitivity analysis was performed for each of the significant CGUs or group of CGUs and other than for the Sage Intacct CGU management concluded that no reasonably possible change in any of the key assumptions would cause the carrying value of the CGU or group of CGUs to exceed its recoverable amount.

For the Sage Intacct CGU, a reasonably possible change in the average medium-term revenue growth rate by 4% p.a. for the initial five years would reduce the value in use by £268m down to its carrying value. The Group has concluded that no reasonably possible change in discount rate or long-term growth rate would reduce the recoverable amount to below its carrying value.

Impairment charge

The Group performed its annual test for impairment on 30 June 2018. The recoverable amount exceeded the carrying value for each CGU or group of CGUs.

6.2 Other intangibles

Accounting policy

Intangible assets arising on business combinations are recognised initially at fair value at the date of acquisition. Subsequently they are carried at cost less accumulated amortisation and impairment charges. The main intangible assets recognised are brands, technology, in-process R&D, computer software and customer relationships.

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

The estimated useful lives are as follows:

Brand names	– 1 to 20 years
Technology/In process R&D ("IPR&D")	– 3 to 7 years
Customer relationships	– 4 to 15 years
Computer software	– 2 to 7 years

Other intangible assets that are acquired by the Group are stated at cost, which is the asset's purchase price and any directly attributable costs of preparing the asset for its intended use, less accumulated amortisation and impairment losses if applicable. Software assets are amortised on a straight-line basis over their estimated useful lives, which do not exceed seven years.

The carrying value of intangibles is reviewed for impairment whenever events indicate that the carrying value may not be recoverable.

Internally-generated software development costs qualify for capitalisation when the Group can demonstrate all of the following:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Its intention to complete the intangible asset and use or sell it;
- Its ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The existence of a market or, if it is to be used internally, the usefulness of the intangible asset;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- Its ability to measure reliably the expenditure attributable to the intangible asset during development.

Generally, commercial viability of new products is not proven until all high-risk development issues have been resolved through testing pre-launch versions of the product. As a result, technical feasibility is proven only after completion of the detailed design phase and formal approval, which occurs just before the products are ready to go to market. Accordingly, development costs have not been capitalised. However, the Group continues to assess the eligibility of development costs for capitalisation on a project-by-project basis.

Costs which are incurred after the general release of internally-generated software or costs which are incurred in order to enhance existing products are expensed in the period in which they are incurred and included within research and development expense in the financial statements.

	Brands £m	Technology £m	Internal IPR&D £m	Computer software £m	Customer relationships £m	Total £m
Cost at 1 October 2017	**42**	**195**	**4**	**106**	**187**	**534**
– Additions	–	12	–	27	–	39
– Acquisitions	–	11	–	–	–	11
– Disposals	–	–	–	(1)	–	(1)
– Transfer to held for sale	–	(34)	–	–	(6)	(40)
– Exchange movement	(1)	3	–	3	2	7
At 30 September 2018	**41**	**187**	**4**	**135**	**183**	**550**
Accumulated amortisation at 1 October 2017	**33**	**102**	**4**	**67**	**54**	**260**
– Charge for the year	3	18	–	13	14	48
– Disposals	–	–	–	–	–	–
– Transfer to held for sale	–	(19)	–	–	(1)	(20)
– Exchange movement	(1)	(2)	–	5	–	2
At 30 September 2018	**35**	**99**	**4**	**85**	**67**	**290**
Net book amount at 30 September 2018	**6**	**88**	**–**	**50**	**116**	**260**

6 Intangible assets continued

6.2 Other intangibles continued

	Brands £m	Technology £m	Internal IPR&D £m	Computer software £m	Customer relationships £m	Total £m
Cost at 1 October 2016	41	127	4	93	147	412
– Additions	–	–	–	22	–	22
– Acquisitions	1	78	–	–	106	185
– Disposal of subsidiaries	–	(8)	–	(1)	(66)	(75)
– Disposals	–	–	–	(7)	–	(7)
– Exchange movement	–	(2)	–	(1)	–	(3)
At 30 September 2017	42	195	4	106	187	534
Accumulated amortisation at 1 October 2016	31	96	4	62	110	303
– Charge for the year	2	14	–	13	7	36
– Disposal of subsidiaries	–	(8)	–	(1)	(65)	(74)
– Disposals	–	–	–	(6)	–	(6)
– Exchange movement	–	–	–	(1)	2	1
At 30 September 2017	33	102	4	67	54	260
Net book amount at 30 September 2017	9	93	–	39	133	274

All amortisation charges in the year have been charged through selling and administrative expenses.

7 Property, plant and equipment

This note details the physical assets used by the Group to operate the business and generate revenues and profits. Assets are shown at their purchase price less depreciation, which is an expense that is charged over the useful life of these assets to reflect annual usage and wear and tear, and impairment.

Accounting policy

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

Freehold buildings	– 50 years
Long leasehold buildings and improvements	– over period of lease
Plant and equipment	– 2 to 7 years
Motor vehicles	– 4 years
Office equipment	– 2 to 7 years

Freehold land is not depreciated.

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

	Land and buildings £m	Plant and equipment £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 October 2017	**93**	**120**	**58**	**271**
– Additions	**1**	**13**	**6**	**20**
– Disposals	**(2)**	**(4)**	**(3)**	**(9)**
– Exchange movement	**–**	**1**	**(1)**	**–**
At 30 September 2018	**92**	**130**	**60**	**282**
Accumulated depreciation at 1 October 2017	**17**	**83**	**38**	**138**
– Charge for the year	**1**	**15**	**4**	**20**
– Disposals	**–**	**(4)**	**(2)**	**(6)**
– Exchange movement	**–**	**–**	**1**	**1**
At 30 September 2018	**18**	**94**	**41**	**153**
Net book amount at 30 September 2018	**74**	**36**	**19**	**129**

	Land and buildings £m	Plant and equipment £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 October 2016	93	157	56	306
– Additions	–	19	11	30
– Acquisitions	–	5	1	6
– Disposals	–	(57)	(9)	(66)
– Disposal of subsidiaries	–	(3)	(1)	(4)
– Exchange movement	–	(1)	–	(1)
At 30 September 2017	93	120	58	271
Accumulated depreciation at 1 October 2016	16	128	39	183
– Charge for the year	1	14	7	22
– Disposals	–	(56)	(8)	(64)
– Exchange movement	–	(3)	–	(3)
At 30 September 2017	17	83	38	138
Net book amount at 30 September 2017	76	37	20	133

All depreciation charges in the year have been charged through selling and administrative expenses.

8 Investment in an associate

This note presents information about the Group's investment in its associate, which is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control of those policies. The Group determines whether it has significant influence based on the voting and any other rights it holds as a result of its investment and also any contractual arrangements in place. Normally, if the Group holds over 20% of the voting rights of an entity without having control or joint control of that entity, the investment will be treated as an associate unless it can be clearly demonstrated that this is not the case.

Accounting policy

The Group's investment in its associate is accounted for using the equity method. Under the equity method, the investment is initially measured at cost. Subsequently, the carrying amount is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately. The income statement reflects the Group's share of the associate's profit or loss after tax and any non-controlling interests in the subsidiaries of the associate. Any change in the Group's share of the associate's other comprehensive income is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any such changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate. The aggregate of the Group's share of profit or loss of the associate is shown on the face of the income statement outside operating profit. The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group. After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment. At each reporting date, the Group determines whether there is objective evidence that the investment is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss in the income statement.

The Group had no investments in associates at 30 September 2018 or 30 September 2017. Prior to 17 March 2017, the Group held an investment in an associate that comprised 100% of the C Ordinary Shares of Fairsail Limited (Fairsail). On that date, the Group acquired in a business combination the remaining share capital of Fairsail, which subsequently changed its name to Sage People Limited. During the year ended 30 September 2017, the Group recognised a gain of £13m on the remeasurement to fair value of the investment in the associate at the acquisition date, and a loss of £1m for the Group's share of the associate's total comprehensive income for the period 1 October 2016 to 17 March 2017, comprising losses from continuing operations.

9 Working capital

This note provides the amounts invested by the Group in working capital balances at the end of the financial year. Working capital is made up of inventories, trade and other receivables and trade and other payables.

Inventories mainly consist of warehouse stock of Sage products, awaiting shipment to business partners or distributors. Trade and other receivables are made up of amounts owed to the Group by customers and amounts that we pay to our suppliers in advance. Trade receivables are shown net of an allowance for bad and doubtful debts. Our trade and other payables are amounts we owe to our suppliers that have been invoiced to us or accrued by us. They also include taxes and social security amounts due in relation to our role as an employer.

This note also gives some additional detail on the age and recoverability of our trade receivables, which provides an understanding of the credit risk faced by the Group as a part of everyday trading. Credit risk is further disclosed in note 14.6.

9.1 Inventories

Accounting policy

Inventories are stated at the lower of cost and net realisable value after making allowances for slow moving or obsolete items.

Cost includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Cost is calculated using the first-in-first-out method.

	2018 £m	2017 £m
Materials	–	1
Finished goods	1	2
	1	3

The Group consumed £12m (2017: £7m) of inventories, included in cost of sales, during the year. There was no material write-down of inventories during the current or prior year.

9.2 Trade and other receivables

Accounting policy

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Amounts falling due within one year:	2018 £m	2017 £m
Trade receivables	390	415
Less: provision for impairment of receivables	(20)	(21)
Trade receivables – net	370	394
Other receivables	23	24
Prepayments and accrued income	66	48
	459	466

The Group's credit risk on trade and other receivables is primarily attributable to trade receivables. The Group has no significant concentrations of credit risk since the risk is spread over a large number of unrelated counterparties.

The Group considers the credit quality of trade and other receivables by geographical location. The Group considers that the carrying value of the trade and other receivables that is disclosed below gives a fair presentation of the credit quality of the assets.

Trade and other receivables (excluding prepayments and accrued income) by geographical location:	2018 £m	2017 £m
Northern Europe	102	126
Central and Southern Europe	177	168
North America	53	55
International	61	69
	393	418

9 Working capital continued

9.2 Trade and other receivables continued

Movements on the Group provision for impairment of trade receivables were as follows:	2018 £m	2017 £m
At 1 October	**21**	21
Increase in provision for receivables impairment	**7**	14
Receivables written off during the year as uncollectable	**(6)**	(7)
Unused amounts reversed	**(5)**	(6)
Exchange movement	**3**	(1)
At 30 September	**20**	21

In determining the recoverability of a trade receivable, the Group considers the ageing of each receivable and any change in the circumstances of the individual receivables. The Directors believe that there is no further provision required in excess of the provision for impairment of receivables.

Included in selling and administrative expenses in the income statement is £16m (2017: £12m) in relation to receivables impairment. Amounts charged to the provision are generally written off when there is no expectation of recovering additional cash.

At 30 September 2018, trade receivables of £22m (2017: £30m) were either partially or fully impaired.

The ageing of these receivables was as follows:	2018 £m	2017 £m
Not due	**–**	–
Less than six months past due	**2**	7
More than six months past due	**20**	23
	22	30

Trade receivables which were past their due date but not impaired at 30 September 2018 were £82m (2017: £73m).

The ageing of these receivables was as follows:	2018 £m	2017 £m
Less than six months past due	**67**	54
More than six months past due	**15**	19
	82	73

The maximum exposure to credit risk at the end of the reporting period is the fair value of each class of receivables mentioned above. The Group held no collateral as security. The Directors estimate that the carrying value of trade receivables approximated their fair value.

9.3 Trade and other payables

Accounting policy

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

Trade and other payables can be analysed as follows:	2018 £m	2017 £m
Trade payables	**29**	38
Other tax and social security payable	**52**	48
Other payables	**31**	28
Cash held on behalf of customers (see note 13.3)	**19**	75
Accruals	**118**	148
	249	337

10 Provisions

This note provides details of the provisions recognised by the Group, where a liability exists of uncertain timing or amount. The main estimates in this area relate to legal exposure, employee severance, onerous leases and dilapidation charges.

This section also explains the accounting policies applied and the specific judgements and estimates made by the Directors in arriving at the value of these liabilities.

Accounting policy

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

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

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

	Restructuring £m	Legal £m	Building £m	Other £m	Total £m
At 1 October 2017	**21**	**10**	**34**	**3**	**68**
– Additional provision in the year	**1**	**7**	**–**	**–**	**8**
– Provision utilised in the year	**(20)**	**(3)**	**(10)**	**(1)**	**(34)**
– Unused amounts reversed	**–**	**(3)**	**(2)**	**–**	**(5)**
At 30 September 2018	**2**	**11**	**22**	**2**	**37**

	Restructuring £m	Legal £m	Building £m	Other £m	Total £m
Maturity profile					
< 1 year	**2**	**8**	**14**	**2**	**26**
1 – 2 years	**–**	**1**	**3**	**–**	**4**
2 – 5 years	**–**	**2**	**1**	**–**	**3**
> 5 years	**–**	**–**	**4**	**–**	**4**
At 30 September 2018	**2**	**11**	**22**	**2**	**37**

Restructuring provisions are for the estimated costs of Group restructuring activities and relate mainly to employee severance which remain unpaid at the balance sheet date. These provisions will be utilised as obligations are settled which is generally expected to be within one year.

Legal provisions have been made in relation to ongoing disputes with third parties and other claims against the Group. This includes the non-recurring litigation costs which remained unpaid at the balance sheet date (see note 3.6). The ageing of legal provisions is assessed regularly, based upon internal and external legal advice, as required.

Building provisions relate to dilapidation charges and onerous lease commitments. The timing of the cash flows associated with building provisions is dependent on the timing of lease agreement termination.

Other provisions comprise mainly those for the costs of warranty cover provided by the Group in respect of products sold to third parties. The timing of the cash flows associated with warranty provisions is spread over the period of warranty with the majority of the claims expected in the first year.

11 Post-employment benefits

This note explains the accounting policies governing the Group's pension schemes, analyses the deficit on the defined benefit pension scheme and shows how it has been calculated.

The majority of the Group's employees are members of defined contribution pension schemes. Additionally, the Group operates two small defined benefit schemes in France and Switzerland.

For defined contribution schemes, the Group pays contributions into separate funds on behalf of the employee and has no further obligations to employees. The risks associated with this type of plan are assumed by the member. Contributions paid by the Group in respect of the current period are included within the income statement.

The defined benefit scheme is a pension arrangement under which participating members receive a pension benefit at retirement determined by the scheme rules, salary and length of pensionable service. The income statement charge for the defined benefit scheme is the current/past service cost and the net interest cost which is the change in the net defined benefit liability that arises from the passage of time. The Group underwrites both financial and demographic risks associated with this type of plan.

Accounting policy

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

The Group also operates a small defined benefit pension scheme in Switzerland and other post-employment benefit schemes in France. The assets of these schemes are held separately from the assets of the Group. Under French legislation, the Group is required to make one-off payments to employees in France who reach retirement age while still in employment. The costs of providing benefits under these schemes are determined using the projected unit credit actuarial valuation method.

The current service cost and gains and losses on settlements and curtailments are included in selling and administrative expenses in the income statement. Past service costs should be recognised on the earlier of the date of the plan amendment and the date the Group recognises restructuring-related costs. Interest on the pension plan assets and the imputed interest on pension plan liabilities are included within selling and administrative expenses in the income statement.

Changes in the post-employment benefit obligation due to experience and changes in actuarial assumptions are included in the statement of comprehensive income in full in the period in which they arise.

The liability recognised in the balance sheet in respect of the defined benefit pension scheme is the present value of the defined benefit obligation and future administration costs at the end of the reporting period, less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximate to the terms of the related pension liability.

The calculation of the defined benefit obligation of a defined benefit plan requires estimation of future events, for example salary and pension increases, inflation and mortality rates. In the event that future experience does not bear out the estimates made in previous years, an adjustment will be made to the plan's defined benefit obligation in future periods which could have a material effect on the Group.

A sensitivity analysis has been performed on the significant assumptions. The significant assumptions are deemed to be the discount rate and salary increases, as these are most likely to have a material impact on the defined benefit obligations. The analysis has been performed by the independent actuaries.

Pension costs included in the consolidated income statement	Note	2018 £m	2017 £m
Defined contribution schemes		**11**	10
Defined benefit plans		**2**	2
	3.3	**13**	12

Defined benefit plans

The most recent actuarial valuations of the post-employment benefit plans were performed by KPMG (France) and PwC (Switzerland) during the year for the year ended 30 September 2018.

Weighted average principal assumptions made by the actuaries	2018 %	2017 %
Rate of increase in pensionable salaries	**2.0**	2.0
Discount rate	**1.0**	0.9
Inflation assumption	**2.0**	2.0

Mortality rate assumptions made by the actuaries	2018 Years	2017 Years
Average life expectancy for 65-year-old male	**21**	21
Average life expectancy for 65-year-old female	**23**	24
Average life expectancy for 45-year-old male	**40**	40
Average life expectancy for 45-year-old female	**43**	44

Amounts recognised in the balance sheet	2018 £m	2017 £m
Present value of funded obligations	**(41)**	(43)
Fair value of plan assets	**19**	21
Net liability recognised in the balance sheet	**(22)**	(22)

Major categories of plan assets as a percentage of total plan assets	2018 £m	2018 %	2017 £m	2017 %
Bonds (quoted)	**6**	**29**	7	34
Equities (quoted)	**6**	**34**	7	33
Other (unquoted)	**7**	**37**	7	33
	19	**100**	21	100

Expected contributions to post-employment benefit plans for the year ending 30 September 2019 are £1m (2017: expected contributions year ending 30 September 2018: £1m).

Amounts recognised in the income statement	2018 £m	2017 £m
Net interest costs on obligation	**–**	–
Current service cost	**(2)**	(2)
Total included within staff costs – all within selling and administrative expenses	**(2)**	(2)

Changes in the present value of the defined benefit obligation	2018 £m	2017 £m
At 1 October	**(43)**	(46)
Exchange movement	**–**	2
Service cost	**(2)**	(2)
Plan participant contributions	**(1)**	(1)
Benefits paid	**3**	2
Actuarial gain – demographic assumptions	**1**	–
Actuarial gain – financial assumptions	**1**	2
At 30 September	**(41)**	(43)

11 Post-employment benefits continued

Changes in the fair value of plan assets	2018 £m	2017 £m
At 1 October	**21**	21
Exchange movement	**–**	(2)
Employer's contributions	**1**	1
Plan participant contributions	**1**	1
Benefits paid	**(2)**	(2)
Actuarial gain on plan assets	**(2)**	2
At 30 September	**19**	21

Analysis of the movement in the balance sheet liability	2018 £m	2017 £m
At 1 October	**(22)**	(25)
Total expense as recognised in the income statement	**(2)**	(2)
Benefits paid	**1**	–
Contributions paid	**1**	1
Actuarial gain	**–**	4
At 30 September	**(22)**	(22)

Sensitivity analysis on significant actuarial assumptions		2018 £m	2017 £m
Discount rate applied to scheme obligations	+/- 0.5% pa	**2**	2
Salary increases	+/- 0.5% pa	**1**	1

12 Deferred income tax

Deferred income tax is an accounting adjustment to recognise liabilities or benefits that are expected to arise in the future due to differences in the carrying value of assets and liabilities and their respective tax bases. In this note we outline the accounting policies, movements in the year on the deferred tax account and the net deferred tax asset or liability at the year end.

A deferred tax asset represents a tax reduction that is expected to arise in a future period.

A deferred tax liability represents taxes which will become payable in a future period as a result of a current or an earlier transaction.

Accounting policy

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on tax rates that have been enacted or substantively enacted at the end of the reporting period.

Tax assets and liabilities are offset when there is a legally enforceable right and there is an intention to settle the balances net.

The movement on the deferred tax account is as shown below:	2018 £m	2017 Restated* £m
At 1 October	**36**	45
Income statement (charge)/credit	**–**	5
Acquisition of subsidiaries	**(3)**	(8)
Disposal of subsidiaries	**–**	(6)
Transfer to held for sale	**1**	–
Other balance sheet reclassification	**(1)**	–
Exchange movement	**(5)**	2
Other comprehensive income/equity movement in deferred tax	**(2)**	(2)
At 30 September	**26**	36

* 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 16.1).

Deferred tax assets have been recognised in respect of tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered. Each of these assets are reviewed to ensure there is sufficient evidence to support their recognition. All underlying temporary differences where a deferred tax liability arising from investments in subsidiaries and associates have been appropriately recognised where it is probable the temporary difference will reverse in the foreseeable future.

In particular, there are tax losses carried forward in respect of Brazilian entities generating a potential net tax asset of £36m. An element of this asset has been recognised in the financial statements (£12m) with the remainder of the asset being unrecognised (£24m). Whilst the relevant entities have suffered a loss in the current period, there is sufficient supporting evidence of future profitability which is available to allow for the recognition of this asset. This evidence includes detailed financial projections for each individual entity as adjusted for tax sensitive items.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12, "Income Taxes", during the year are shown below. The offsetting of these balances is shown within the reclassification line of the notes below. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Deferred tax assets and liabilities categorised as "other deferred tax" of £36m (2017: £34m) includes various balances in relation to accounting provisions/accruals (asset £31m) (2017: £38m), goodwill amortisation (liability £13m) (2017: £30m), deferred revenue (asset £16m) (2017: £16m) and other sundry amounts (asset £2m) (2017: £10m).

12 Deferred income tax continued

All underlying temporary differences arising from investments in subsidiaries and associates have been appropriately recognised where it is probable the temporary difference will reverse in the foreseeable future.

Deferred tax assets	Intangible assets £m	Tax losses £m	Other £m	Total £m
At 1 October 2017	**(5)**	**12**	**54**	**61**
Income statement credit/(debit)	**1**	**(1)**	**(6)**	**(6)**
Other balance sheet reclassification	**–**	**–**	**(1)**	**(1)**
Exchange movement	**1**	**(1)**	**(3)**	**(3)**
At 30 September 2018	**(3)**	**10**	**44**	**51**
Deferred tax liabilities				
At 1 October 2017	**(55)**	**47**	**(17)**	**(25)**
Income statement credit/(debit)	**21**	**(26)**	**11**	**6**
Acquisition/disposal	**(3)**	**–**	**–**	**(3)**
Transferred to assets held for sale	**8**	**(7)**	**–**	**1**
Other comprehensive income/equity movement in deferred tax	**–**	**–**	**(2)**	**(2)**
Exchange movement	**(2)**	**–**	**–**	**(2)**
At 30 September 2018	**(31)**	**14**	**(8)**	**(25)**
Net deferred tax (liability)/asset at 30 September 2018	**(34)**	**24**	**36**	**26**

Deferred tax assets	Intangible assets £m	Tax losses £m	Other £m	Total restated* £m
At 1 October 2016	(8)	5	61	58
Income statement credit/(debit)	2	6	(3)	5
Reclassification to deferred tax liability	1	–	(4)	(3)
Exchange movement	–	1	–	1
At 30 September 2017	(5)	12	54	61
Deferred tax liabilities				
At 1 October 2016	(19)	18	(12)	(13)
Income statement credit/(debit)	6	(5)	(1)	–
Reclassification from deferred tax asset	(1)	–	4	3
Acquisition/disposal	(43)	36	(7)	(14)
Other comprehensive income/equity in deferred tax	–	–	(2)	(2)
Exchange movement	2	(2)	1	1
At 30 September 2017	(55)	47	(17)	(25)
Net deferred tax (liability)/asset at 30 September 2017	(60)	59	37	36

* 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 16.1).

NET DEBT AND CAPITAL STRUCTURE

13 Cash flow and net debt

This note analyses our operational cash generation, shows the movement in our net debt in the year, and explains what is included within our cash balances and borrowings at the year end.

Cash generated from operations is the starting point of our consolidated statement of cash flows. This section outlines the adjustments for any non-cash accounting items to reconcile our accounting profit for the year to the amount of cash we generated from our operations.

Net debt represents the amount of cash held less borrowings, overdrafts, and cash held on behalf of customers.

Borrowings are mostly made up of fixed-term external debt which the Group has taken out in order to finance acquisitions in the past.

13.1 Cash flow generated from continuing operations

Reconciliation of profit for the year to cash generated from continuing operations	2018 £m	2017 £m
Profit for the year	**295**	257
Adjustments for:		
– Income tax	**103**	85
– Finance income	**(5)**	(10)
– Finance costs	**34**	28
– Share of loss of an associate	**–**	1
– Amortisation and impairment of intangible assets	**48**	36
– Depreciation and impairment of property, plant and equipment	**20**	22
– Loss on disposal of tangible assets	**1**	–
– R&D tax credits	**(6)**	(1)
– Equity-settled share-based transactions	**18**	11
– Gain on re-measurement of existing investment in an associate	**–**	(13)
– Loss/(gain) on disposal of subsidiary	**1**	(3)
– Exchange movement	**–**	1
Changes in working capital (excluding effects of acquisitions and disposals of subsidiaries):		
– Decrease/(increase) in inventories	**1**	(1)
– Decrease/(increase) in trade and other receivables	**6**	(46)
– (Decrease)/increase in trade and other payables and provisions	**(61)**	4
– Increase in deferred income	**32**	32
Cash generated from continuing operations	**487**	403

13.2 Net debt

Reconciliation of net cash flow to movement in net debt	2018 £m	2017 £m
Increase/(decrease) in cash in the year (pre-exchange movements)	**107**	(20)
Cash outflow/(inflow) from movement in loans, and cash held on behalf of customers	**60**	(396)
Change in net debt resulting from cash flows	**167**	(416)
Acquisitions	**–**	(9)
Disposals	**–**	(3)
Non-cash movements	**(2)**	–
Exchange movement	**(20)**	13
Movement in net debt in the year	**145**	(415)
Net debt at 1 October	**(813)**	(398)
Net debt at 30 September	**(668)**	(813)

13 Cash flow and net debt continued

13.2 Net debt continued

Analysis of change in net debt	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 including cash held for sale	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**	**–**	**–**	**(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.

13.3 Cash and cash equivalents (excluding bank overdrafts and cash amounts included in held for sale)

Accounting policy

For the purpose of preparation of the consolidated statement of cash flows and the consolidated balance sheet, cash and cash equivalents include cash at bank and in hand and short-term deposits with an original maturity period of three months or less. Bank overdrafts that are an integral part of a subsidiary's cash management are included in cash and cash equivalents where they have a legal right of set-off and there is an intention to settle net, against positive cash balances, otherwise bank overdrafts are classified as borrowings.

	2018 £m	2017 £m
Cash at bank and in hand	**252**	143
Cash held on behalf of customers	**19**	75
Short-term bank deposits	**1**	13
	272	231

In line with contractual obligations or Company practice, cash held on behalf of customers is held in separate bank accounts by the Group until such time as these amounts are paid.

The credit risk on liquid funds is considered to be low, as the Board-approved Group treasury policy limits the value that can be invested with each approved counterparty to minimise the risk of loss. The Group policy is to place cash and cash equivalents with counterparties which are well established banks with high credit ratings where available. In some jurisdictions there is limited availability of such counterparties.

At 30 September 2018, 80% (2017: 79%) of the cash and cash equivalents balance was deposited with financial institutions rated at least A3 by Moody's Investors Service. The investment instruments utilised are money market funds, money market term deposits and bank deposits.

The Group's maximum exposure to credit risk in relation to cash and cash equivalents is their carrying amount in the balance sheet.

13.4 Borrowings

Accounting policy

Interest-bearing borrowings are recognised initially at fair value less attributable issue costs, which are amortised over the period of the borrowings. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of borrowing on an effective interest basis.

Current	2018 £m	2017 £m
Bank overdrafts	**8**	18
US senior loan notes – unsecured	**–**	37
	8	55

Non-current	2018 £m	2017 £m
Bank loans – unsecured	**416**	429
US senior loan notes – unsecured	**497**	485
	913	914

Included in loans above is £913m (2017: £951m) of unsecured loans (after unamortised issue costs).

In the table above, bank loans and loan notes are stated net of unamortised issue costs of £2m (2017: £2m). Unsecured bank loans attract an average interest rate of 2.1% (FY17: 1.5%).

				Loan value	
Borrowings	Year issued	Interest coupon	Maturity	**2018 £m**	2017 £m
US private placement					
– USD 50m loan note	2013	2.60%	20-May-18	**–**	37
– USD 150m loan note	2013	3.08%	20-May-20	**115**	112
– USD 150m loan note	2013	3.71%	20-May-23	**115**	112
– USD 50m loan note	2013	3.86%	20-May-25	**38**	37
– EUR 55m loan note	2015	1.89%	26-Jan-22	**49**	48
– EUR 30m loan note	2015	2.07%	26-Jan-23	**27**	26
– USD 200m loan note	2015	3.73%	26-Jan-25	**153**	150

There were £418m drawings (2017: £318m) under the multi-currency revolving credit facility of £686m (2017: £603m) expiring in February 2023, which consists both of US$719m/£551m (2017: US$551m/£411m) and of £135m (2017: €218m/£192m) tranches.

14 Financial instruments

This note shows details of the fair value and carrying value of short and long-term borrowings, trade and other payables, trade and other receivables, short-term bank deposits and cash at bank and in hand. These items are all classified as "financial instruments" under accounting standards. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In order to assist users of these financial statements in making an assessment of any risks relating to financial instruments, this note also shows the ageing of these items and analyses their sensitivity to changes in key inputs, such as interest rates and foreign exchange rates. An explanation of the Group's exposure to and management of capital, liquidity, credit, interest rate and foreign currency risk is set out in the financial risk management section at the end of this note.

Accounting policy

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

Financial assets are derecognised when the rights to receive cash flows from the asset have expired, or when the Group has transferred those rights and either has also transferred substantially all the risks and rewards of the asset or has neither transferred nor retained substantially all the risks and rewards of the asset but no longer has control of the asset.

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

14.1 Fair values of financial instruments

The carrying amounts of the following financial assets and liabilities approximate to their fair values: trade and other payables excluding tax and social security, trade and other receivables excluding prepayments and accrued income, short-term bank deposits and cash at bank and in hand.

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.

		2018		2017	
	Note	**Book value £m**	**Fair value £m**	Book value £m	Fair value £m
Long-term borrowing	13.4	**(913)**	**(906)**	(914)	(924)
Short-term borrowing	13.4	**(8)**	**(8)**	(55)	(56)

The carrying amounts of trade receivables (note 9.2) and cash and cash equivalents (note 13.3) represent the Group's maximum exposure to credit risk.

The Group has a US$ fixed asset investment in an unquoted equity instrument which is classified as an available-for-sale financial asset and carried at its fair value of £17m (2017: £15m). The fair value of the investment has been determined using a discounted cash flow valuation technique. The main inputs to the calculation for which assumptions have been made are the discount rate, the timing of future cash flows and the period over which the investment will continue to be held. The gain on revaluation of £1m (2017: £nil) is recognised in other comprehensive income. The remaining movement is due to foreign currency exchange. This is a level 3 fair value as defined within IFRS 13.

14.2 Maturity of financial liabilities

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

	2018		
	Borrowings £m	**Trade and other payables excluding other tax and social security £m**	**Total £m**
In less than one year	**36**	**197**	**233**
In more than one year but not more than two years	**144**	**3**	**147**
In more than two years but not more than five years	**667**	**5**	**672**
In more than five years	**202**	**–**	**202**
	1,049	**205**	**1,254**

14.2 Maturity of financial liabilities continued

			2017
	Borrowings £m	Trade and other payables excluding other tax and social security £m	Total £m
In less than one year	81	291	372
In more than one year but not more than two years	453	2	455
In more than two years but not more than five years	200	3	203
In more than five years	344	–	344
	1,078	296	1,374

The maturity profile of provisions is disclosed in note 10.

14.3 Borrowing facilities

The Group has the following undrawn committed borrowing facilities available at 30 September in respect of which all conditions precedent had been met at that date:

	2018 £m	2017 £m
Expiring in more than two years but not more than five years	**268**	285

The facilities have been arranged to help finance the expansion of the Group's activities. All these facilities incur commitment fees at market rates. In addition, the Group maintains overdraft and uncommitted facilities to provide short-term flexibility and has also utilised the US private placement market.

14.4 Market risk sensitivity analysis

Financial instruments affected by market risks include borrowings and deposits.

The following analysis, required by IFRS 7, "Financial Instruments: Disclosures", is intended to illustrate the sensitivity to changes in market variables, being sterling, US Dollar and Euro interest rates, and sterling/US Dollar and sterling/Euro exchange rates.

The sensitivity analysis assumes reasonable movements in foreign exchange and interest rates before the effect of tax. The Group considers a reasonable interest rate movement in LIBOR to be 1%, based on interest rate history. Similarly, sensitivity to movements in sterling/US Dollar and sterling/Euro exchange rates of 10% are shown, reflecting changes of reasonable proportion in the context of movement in those currency pairs over the last year.

Using the above assumptions, the following table shows the illustrative effect on the consolidated income statement and equity.

	2018		2017	
	Income (losses)/gains £m	**Equity (losses)/gains £m**	Income (losses)/gains £m	Equity (losses)/gains £m
1% increase in market interest rates	**(3)**	**(3)**	(1)	(1)
1% decrease in market interest rates	**3**	**3**	1	1
10% strengthening of sterling versus the US Dollar	**(6)**	**(11)**	(3)	(53)
10% strengthening of sterling versus the Euro	**(14)**	**(44)**	(10)	(37)
10% weakening of sterling versus the US Dollar	**7**	**12**	4	59
10% weakening of sterling versus the Euro	**15**	**49**	11	41

14 Financial instruments continued

14.5 Hedge accounting

Accounting policy

A proportion of the Group's external US Dollar denominated borrowings, and the total of its Euro-denominated borrowings, are designated as a hedge of the net investment in its subsidiaries in the US and Eurozone. The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation which is determined to be an effective hedge is recognised in other comprehensive income. The ineffective portion is recognised immediately in profit or loss. On disposal of the net investment, the foreign exchange gains and losses on the hedging instrument are recycled to the income statement from equity.

The fair values of the Group's external US Dollar and Euro-denominated borrowings designated as a hedge at 30 September 2018 were USD 468m and EUR 88m (2017: USD 562m and EUR 128m). These borrowings were used to hedge the Group's exposure to the USD and EUR foreign exchange risk on its investments in subsidiaries in the US and Eurozone.

In the prior year, on disposal of the North American Payments business, an exchange difference of £32m related to hedge instruments was recycled through the income statement in proportion to the disposed net investment.

14.6 Financial risk management

The Group's exposure to and management of capital, liquidity, credit, interest rate and foreign currency risk are summarised below.

Capital risk

The Group's objectives when managing capital (defined as net debt plus equity) are to safeguard our ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders, while optimising returns to shareholders through an appropriate balance of debt and equity funding. The Group manages its capital structure and makes adjustments to it with respect to changes in economic conditions and our strategic objectives. The Group has set a long-term minimum leverage target of 1x net debt to EBITDA and will work to maintain this going forward.

Liquidity risk

The Group manages its exposure to liquidity risk by reviewing cash resources required to meet business objectives through both short and long-term cash flow forecasts. The Group has committed facilities which are available to be drawn for general corporate purposes including working capital. The Treasury function has responsibility for optimising the level of cash across the business.

Credit risk

The Group's credit risk primarily arises from trade and other receivables. The Group has a very low operational credit risk due to the transactions being principally of a high volume, low value and short maturity. The Group has no significant concentration of operational credit risk, with the exposure spread over a large number of counterparties and customers.

The credit risk on liquid funds is considered to be low, as the Board-approved Group treasury policy limits the value that can be invested with each approved counterparty to minimise the risk of loss. All counterparties must meet minimum credit rating requirements.

Interest rate risk

The Group is exposed to interest rate risk on floating rate deposits and borrowings. The Group's borrowings comprise principally US private placement loan notes which are at fixed interest rates, and the bank revolving credit facility, which is subject to floating interest rates. At 30 September 2018, the Group had £272m (2017: £231m) of cash and cash equivalents.

The Group regularly reviews forecast debt, cash and cash equivalents and interest rates to monitor this risk. Interest rates on debt and deposits are fixed when management decides this is appropriate.

At 30 September 2018, the Group's borrowings comprised US private placement loan notes of £497m (2017: £522m), which have an average fixed interest rate of 3.31% (2017: 3.26%); and unsecured bank loans of £416m (2017: £429m), comprising mainly the bank revolving credit facility, which have an average fixed interest rate of 2.1% (2017: 1.5%).

Foreign currency risk

Although a substantial proportion of the Group's revenue and profit is earned outside the UK, operating companies generally only trade in their own currency. The Group is therefore not subject to any significant foreign exchange transactional exposure within these subsidiaries.

The Group's principal exposure to foreign currency lies in the translation of overseas profits into sterling; this exposure is not hedged.

The Group's external Euro denominated borrowings and a proportion of its US Dollar borrowings are designated as a hedge of the net investment in its subsidiaries in the US and Eurozone. The foreign exchange movements on translation of the borrowings into sterling have therefore been recognised in the translation reserve. Certain of the Group's intercompany balances have been identified as part of the Group's net investment in foreign operations. Foreign exchange effects on these balances that remain on consolidation are also reflected in the translation reserve. The Group's other currency exposures comprise those currency gains and losses recognised in the income statement, reflecting other monetary assets and liabilities of the Group that are not denominated in the functional currency of the entity involved. At 30 September 2018 and 30 September 2017, these exposures were immaterial to the Group.

15 Equity

This note analyses the movements recorded through shareholders' equity that are not explained elsewhere in the financial statements, being changes in the amount which shareholders have invested in the Group.

The Group utilises share award schemes as part of its employee remuneration package. Share option schemes for our employees include The Sage Group Performance Share Plan for Directors and senior executives and The Sage Group Savings-related Share Option Plan (the "SAYE Plan") for all qualifying employees. The Group incurs costs in respect of these schemes in the income statement, which is set out below along with a detailed description of each scheme and the number of options outstanding.

This note also shows the dividends paid in the year and any dividends that are to be proposed and paid post-year end. Dividends are paid as an amount per ordinary share held.

15.1 Ordinary shares

Accounting policy

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

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the owners of the Company until the shares are cancelled or reissued.

Issued and fully paid ordinary shares of 14/77 pence each	**2018 shares**	**2018 £m**	2017 shares	2017 £m
At 1 October	**1,120,638,121**	**12**	1,119,480,363	12
Shares issued	**151,174**	**–**	1,157,758	–
At 30 September	**1,120,789,295**	**12**	1,120,638,121	12

Issues of ordinary shares

Under the Executive Share Option Scheme, 23,179 14/77 p ordinary shares were issued during the year for aggregate proceeds of £nil.

Under the Savings-related Share Option Scheme, 127,995 14/77 p ordinary shares were issued during the year for aggregate proceeds of £nil.

15 Equity continued

15.2 Share-based payments

Accounting policy

Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest allowing for the effect of non market-based vesting conditions.

Fair value is measured using the Black-Scholes or the Monte Carlo pricing models, based on observable market prices. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

All outstanding Sage Performance Share Plans ("PSPs") are subject to some non-market performance conditions. These are organic revenue and EPS growth. The element of the income statement charge relating to market performance conditions is fixed at the grant date.

At the end of the reporting period, the Group revises its estimates for the number of options expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The total charge for the year relating to employee share-based payment plans was £18m (2017: £11m), all of which related to equity-settled share-based payment transactions.

Scheme	2018 £m	2017 £m
Performance Share Plan	**1**	6
Restricted Share Plan	**9**	2
Share options	**8**	3
Total	**18**	11

The Sage Group Performance Share Plan

Annual grants of performance shares will normally be made to Executive Directors and senior executives across the Group after the preliminary declaration of the annual results. Under the Performance Share Plan 2,704,069 (2017: 3,198,162) awards were made during the year.

Awards prior to 2016

These performance shares are subject to a service condition and three performance conditions. Performance conditions are weighted one-third on the achievement of an EPS target, and one-third on the achievement of an organic revenue growth target. The remaining one-third is based on a TSR target.

The EPS vesting percentage is based on compound EPS growth. Where compound EPS growth is between 6% and 12%, the EPS vesting percentage will be calculated on a straight-line pro-rata basis between 6.7% and 26.7%, and where compound EPS growth is between 12% and 15%, the EPS vesting percentage will be calculated on a straight-line pro-rata basis between 26.7% and 33.3%.

The organic revenue growth target is based on the Company's compound annual organic revenue growth. Where growth is between 4% and 8% the organic revenue growth vesting percentage will be calculated on a straight-line pro-rata basis between 6.7% and 26.7%, and where the Company's compound organic revenue growth is between 8% and 10%, the organic revenue growth vesting percentage will be calculated on a straight-line pro-rata basis between 26.7% and 33.3%. In order for the organic revenue growth target proportion to vest, the underlying operating profit margin in the financial year of vesting must not be less than that of the underlying operating profit margin for the financial year in which the award is granted.

The final third of the award is the performance target relating to TSR which measures share price performance against a designated comparator group. Where the Company's TSR is between median and upper quartile, the TSR vesting percentage will be calculated on a straight-line pro-rata basis between 6.7% and 26.7% and where the Company's TSR is between upper quartile and upper decile, the TSR vesting percentage will be calculated on a straight-line pro-rata basis between 26.7% and 33.3%. The TSR vesting percentage may only exceed 26.7% ("stretch" level) if performance against either the EPS target or the organic revenue growth target is also at "stretch" level.

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

Awards were valued using the Monte Carlo option pricing model. The market-based performance conditions were included in the fair value calculations, which were based on observable market prices at grant date. All options granted under performance share awards have an exercise price of nil.

Awards from 2016 onwards

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

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

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

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

Awards were valued using the Monte Carlo option pricing model. Performance conditions were included in the fair value calculations, which were based on observable market prices at grant date. All options granted under performance share awards have an exercise price of nil. The fair value per award granted and the assumptions used in the calculation are as follows:

Grant date	**December 2017**	**May 2018**
Share price at grant date	**£7.59**	**£6.73**
Number of employees	**84**	**14**
Shares under award	**2,561,092**	**142,977**
Vesting period (years)	**3**	**3**
Expected volatility	**20.9%**	**21.4%**
Award life (years)	**3**	**3**
Expected life (years)	**3**	**3**
Risk-free rate	**0.95%**	**0.83%**
Fair value per award	**6.10**	**4.64**

Grant date	December 2016	August 2017	September 2017
Share price at grant date	£6.36	£6.86	£7.17
Number of employees	84	14	6
Shares under award	2,823,124	272,350	102,688
Vesting period (years)	3	2	2
Expected volatility	21.6%	21.0%	20.9%
Award life (years)	3	2	2
Expected life (years)	3	2	2
Risk-free rate	0.27%	0.24%	0.41%
Fair value per award	£4.17	£4.38	£4.64

The expected volatility is based on historical volatility over the last three years. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed award life.

15 Equity continued

15.2 Share-based payments continued

A reconciliation of award movements over the year is shown below:

	2018 Number '000s	2018 Weighted average exercise price £	2017 Number '000s	2017 Weighted average exercise price £
Outstanding at 1 October	**7,627**	**–**	10,035	–
Awarded	**2,704**	**–**	3,198	–
Forfeited	**(2,392)**	**–**	(3,775)	–
Exercised	**(1,694)**	**–**	(1,831)	–
Outstanding at 30 September	**6,245**	**–**	7,627	–
Exercisable at 30 September	**–**	**–**	–	–

	2018 Weighted average remaining life years		2017 Weighted average remaining life years	
Range of exercise prices	**Expected**	**Contractual**	Expected	Contractual
N/A	**1.3**	**1.3**	1.3	1.3

The Sage Group Restricted Share Plan

The Group's Restricted Share Plan is a long-term incentive plan used in limited circumstances and usually on a one-off basis, under which contingent share awards are usually made only with service conditions. Executive Directors are not permitted to participate in the plan and shares are purchased in the market to satisfy vesting awards. During the year 2,609,526 (2017: 847,491) awards were made. These awards only have service conditions and their fair values are equal to the share price on the date of grant, ranging from 578-761p.

A reconciliation of award movements over the year is shown below:

	2018 Number '000s	2018 Weighted average exercise price £	2017 Number '000s	2017 Weighted average exercise price £
Outstanding at 1 October	**740**	**–**	537	–
Awarded	**2,610**	**–**	847	–
Forfeited	**(226)**	**–**	(215)	–
Exercised	**(390)**	**–**	(429)	–
Outstanding at 30 September	**2,734**	**–**	740	–
Exercisable at 30 September	**–**	**–**	–	–

	2018 Weighted average remaining life years		2017 Weighted average remaining life years	
Range of exercise prices	**Expected**	**Contractual**	Expected	Contractual
N/A	**1.6**	**1.6**	1.2	1.2

Share options

Share options comprise The Sage Global Save and Share Plan (the "Save and Share Plan") and acquisition options.

The Save and Share Plan is a savings-related share option scheme for employees of the Group and is available to employees in the majority of countries in which the Group operates. The UK plan is an HMRC-approved savings-related share option scheme, and similar arrangements apply in other countries where they are available. The fair value of the options is expensed over the service period of three, five or seven years on the assumption that 5% of options will lapse over the service period as employees leave the Group.

In the year, 1,363,310 (2017: 2,209,518) options were granted under the terms of the Save and Share Plan.

As part of certain acquisitions, the Group awards certain employees with options proportional to previously held options in the company acquired. This amounted to nil (2017: 6,580,801) options being granted in the year with exercise prices ranging from £nil (2017: 22-681p). The awards granted in 2017 only have service conditions with the fair value portion of the options relating to pre-acquisition services being included as part of the purchase consideration and the remaining fair value of options being expensed over the service period ranging from 1-48 months.

A reconciliation of award movements over the year is shown below:

	2018		2017	
	Number '000s	**Weighted average exercise price £**	Number '000s	Weighted average exercise price £
Outstanding at 1 October	**6,542**	**1.85**	–	–
Awarded	**–**	**–**	6,581	1.85
Forfeited	**(292)**	**2.93**	(33)	1.39
Exercised	**(931)**	**1.09**	(6)	1.33
Outstanding at 30 September	**5,319**	**1.92**	6,542	1.85
Exercisable at 30 September	**3,396**	**1.34**	379	1.87

	2018		2017	
	Weighted average remaining life years		Weighted average remaining life years	
Range of exercise prices	**Expected**	**Contractual**	Expected	Contractual
22p-681p	**1.1**	**7.0**	1.1	7.9

15.3 Other reserves

	Translation reserve £m	**Merger reserve £m**	**Total other reserves £m**
At 1 October 2016	126	61	187
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
At 30 September 2017	**70**	**61**	**131**
Exchange differences on translating foreign operations	**15**	**–**	**15**
At 30 September 2018	**85**	**61**	**146**

Translation reserve

The translation reserve represents the accumulated exchange differences arising since the transition to IFRS from the following sources:

- The impact of the translation of subsidiaries with a functional currency other than sterling; and
- Exchange differences arising on hedging instruments that are designated hedges of a net investment in foreign operations, net of tax where applicable.

Exchange differences arising prior to the IFRS transition were offset against retained earnings.

Merger reserve

Merger reserve brought forward relates to the merger reserve which was present under UK GAAP and frozen on transition to IFRS.

15 Equity continued

15.4 Retained earnings

Retained earnings	2018 £m	2017 £m
At 1 October	**477**	310
Profit for the year	**295**	300
Actuarial gain on post-employment benefit obligations (note 11)	**–**	4
Deferred tax charge on actuarial gain on post-employment obligations	**–**	(1)
Gain on available-for-sale fixed asset investment	**1**	–
Value of employee services net of deferred tax	**16**	9
Value of employee services on acquisition	**–**	21
Purchase of treasury shares	**–**	(9)
Proceeds from issuance of treasury shares	**3**	–
Dividends paid to owners of the parent (note 15.5)	**(171)**	(157)
Total	**621**	477

Treasury shares

Purchase of treasury shares

Shares purchased under the Group's buyback programme are not cancelled but are retained in issue and represent a deduction from equity attributable to owners of the parent. 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 gifted nil shares (2017: 1,019,166) to the Employee Share Trust.

At 30 September 2018 the Group held 35,480,890 (2017: 38,503,265) of treasury shares.

Employee Share Trust

The Group holds treasury shares in a trust which was set up for the benefit of Group employees. The Trust purchases the Company's shares in the market or is gifted these by the Company for use in connection with the Group's share-based payments arrangements. The Trust holds 254,525 ordinary shares in the Company (2017: 961,715) at a cost of £2m (2017: £6m) and a nominal value of £nil (2017: £nil).

During the year, the 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).

The costs of funding and administering the scheme are charged to the profit and loss account of the Company in the period to which they relate. The market value of the shares at 30 September 2018 was £1m (2017: £7m).

15.5 Dividends

Accounting policy

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

	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
Interimdividend 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.

OTHER NOTES

16 Acquisitions and disposals

The following note outlines acquisitions and disposals during the year and the accompanying accounting policies. Each acquisition or disposal during the year is discussed and the effects on the results of the Group are highlighted. Additional disclosures are presented for disposals and planned disposals that qualify as businesses held for sale or for presentation as discontinued operations.

Accounting policy

Acquisitions:

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, "Business Combinations" are recognised at their fair values at the acquisition date.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability are recognised in the income statement. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's total identifiable net assets acquired. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the difference is recognised directly in the consolidated income statement. Any subsequent adjustment to reflect changes in consideration arising from contingent consideration amendments is recognised in the consolidated income statement.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Acquisition-related items such as legal or professional fees are expensed to the income statement as incurred.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity.

Where the Group enters into put and call arrangements over shares held by a non-controlling interest, the Group continues to recognise the non-controlling interest until the ownership risks and rewards of those shares transfer to the Group.

Businesses held for sale and discontinued operations:

The Group classifies the assets and liabilities of a business as held for sale if their carrying amounts will be recovered principally through a sale of the business rather than through continuing use. These assets and liabilities are measured at the lower of their carrying amount and fair value less costs to sell. The criteria for classification as held for sale are met only when the sale is highly probable and the business is available for immediate sale in its present condition. Actions required to complete the sale must indicate that it is unlikely that significant changes will be made to the plan or that the decision to sell will be withdrawn. Management must be committed to the sale and completion must be expected within one year from the date of the classification. Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the consolidated balance sheet.

A business qualifies as a discontinued operation if it is a component of the Group that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations; and
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations.

Discontinued operations are excluded from the results of continuing operations in both the current and prior years and are presented as a single amount in the consolidated income statement as profit or loss on discontinued operations.

16 Acquisitions and disposals continued

16.1 Acquisitions

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.

16.2 Costs relating to business combinations in the year

Costs directly relating to completion of the business combinations in the year of £1m (2017: £10m) have been included in selling and administrative expenses in the consolidated income statement. These acquisition-related items relate to completed transactions and include advisory, legal, accounting, valuation and other professional or consulting services.

16.3 Disposals and discontinued operations

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

17 Related party transactions

This note provides information about transactions between the Group and its related parties. A group's related parties include any entities over which it has control, joint control or significant influence, and any persons who are members of its key management personnel.

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 (see note 8). 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. Compensation paid to the Executive Committee is disclosed in note 3.3.

No other related party transactions occurred during the current year or the prior year.

18 Group undertakings

While we present consolidated results in these financial statements, our structure is such that there are a number of different operating and holding companies that contribute significantly to the overall result.

Our subsidiaries are located around the world and each contributes to the profits, assets and cash flow of the Group.

The entities listed below and on the following pages are subsidiaries of the Company or Group. The Group percentage of equity capital and voting rights is 100% for all subsidiaries listed with all shares held being classed as ordinary. The results for all of the subsidiaries have been consolidated within these financial statements.

Name	Registered address	Country	Name	Registered address	Country
ACCPAC UK Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom	Sage (UK) Ltd	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Apex Software International Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland	Sage Alchemex (Pty) Ltd	23A Flanders Drive, Mount Edgecombe, Durban, 4321	South Africa
Apex Software Systems Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland	Sage Australia Holdings Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy, Chatswood, NSW 2067 Australia	Australia
Best Software Germany	Berner Str. 23, D-60437, Frankfurt, Germany	Germany	Sage Bäurer AG	Platz 10, Root D4, CH-6039, Switzerland	Switzerland
Budgeta Technologies Ltd	Derech Menachem Begin, 144 Floor 50, Tel Aviv 9492102	Israel	Sage Bäurer GmbH	Josefstraße 10, 78166 Donauerschingen	Germany
Computer Resources (Research) Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland	Sage Brasil 3 Empreendimentos E Participações Ltda	Rua Antônio Nagib Ibrahim, 350, part A, Água Branca, São Paulo, São Paulo, Postal Code 05036-060	Brazil
Computer Resources (Software) Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland	Sage Brasil Software S.A.	Rodovia Luiz de Queiroz, without number, Nova Americana, Km 127,5, Americana, São Paulo Postal Code 13466-170	Brazil
Computer Resources (Supplies) Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland	Sage Brazilian Investment One Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Computer Resources Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland	Sage Brazilian Investment Two Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Creative Purpose Sdn Bhd	Suite B13A-4, Tower B, Level 13A, Northpoint Offices, Mid Valley City, No. 1 Medan Syed Putra Utara, 59200 Kuala Lumpur	Malaysia	Sage Budgeta, Inc.	300 Park Avenue, Suite 1400, San Jose CA 95110	USA
eWare GmbH	Untere Weidenstr. 5, c/o RAè Becker & Koll., 81543 München	Germany	Sage Business Solutions Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy, Chatswood, NSW 2067 Australia	Australia
Handisoft Software Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy, Chatswood, NSW 067 Australia	Australia	Sage CRM Solutions GmbH	Franklinshasse 30a, 60486 Frankfurt am Main	Germany
Intacct Development Romania SRL	No 77, 1st Floor, The Office building, C section, 400604 Cluj-Napoca, Romania	Romania	Sage CRM Solutions Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Intacct Software Pvt Limited	3rd Floor, Esteem Arcade, 26/1, Race Course Road, Bangalore, 560 001	India	Sage Enterprise Solutions Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
IntelligentApps Holdings Limited	Providence House, East Hill Street, Nassau, Bahamas	Bahamas	Sage Euro Hedgeco 1	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Interact UK Holdings Limited*	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom	Sage Euro Hedgeco 2	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
IOB Informações Objetivas Publicações Jurídicas Ltda	Rua Nagib Ibrahim, 350, Água Branca, São Paulo, Postal Code 05036-060	Brazil	Sage Far East Investments Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
KCS Global Holdings Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom	Sage Global Services (Ireland) Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland

Name	Registered address	Country	Name	Registered address	Country
KHK Software AG	Platz 10, Root D4, CH-6039, Switzerland	Switzerland	Sage Global Services Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Multisoft Financial Systems Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom	Sage Global Services US, Inc.	271 17th Street NW, Suite 1100 Atlanta, Georgia 30363	United States
PAI Services, LLC	305 Fellowship Road, Suite 300 Mt. Laurel, New Jersey 08054	United States	Sage GmbH	Stella-Klein-Löw-Weg 15, 1020 Wien	Austria
Pastel Software (Europe) Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland	Sage GmbH	Franklinshasse 30a, 60486 Frankfurt am Main	Germany
Pastel Software (Ireland) Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland	Sage Hibernia Investments No.1 Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Protx Group Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom	Sage Hibernia Investments No.2 Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Protx Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom	Sage Hibernia Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland
Sage Hibernia Services Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland	Sage Software East Africa Limited	Nivina Towers, 1st Floor, Westlands Road, Nairobi, Kenya	Kenya
Sage Holding Company Limited*	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom	Sage Software Holdings, Inc.	271 17th Street NW, Suite 1100 Atlanta, Georgia 30363	United States
Sage Holding France SAS	Atrium Defense, Paris la Defense, 10 Place de Belgique, 92250, Le Garenne Colombes, Paris	France	Sage Software (India) Private Limited	N-34, Lower Ground Floor, Block M, Rampuri, Kalkaji, New Delhi 110019, India	India
Sage Holdings Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom	Sage Software International, Inc.	271 17th Street NW, Suite 1100 Atlanta, Georgia 30363	United States
Sage Intacct, Inc.	300 Park Avenue, Suite 1400, San Jose, CA, 95110	United States	Sage Software Ltd	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Sage Irish Finance Company Unlimited Company	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland	Sage Software Middle East FZ-LLC	116 – 120, Floor: 01, Building: 11, Dubai, UAE	United Arab Emirates
Sage Irish Investments LLP	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom	Sage Software Namibia (Pty) Ltd	34 Nelson Mandela Avenue, Ardeco Building, 1st Floor, Klein Windhoek, Namibia	Namibia
Sage Irish Investments One Limited*	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom	Sage Software Nigeria Limited	Plot 252E Muri Okunola Street, Victoria Island, Lagos.	Nigeria
Sage Irish Investments Two Limited*	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom	Sage Software North America	271 17th Street NW, Suite 1100 Atlanta, Georgia 30363	United States
Sage Management & Services GmbH	Emil-von-Behring-Straße 8-14, 60439 Frankfurt am Main	Germany	Sage Software Sdn Bhd	Suite B13A-4, Tower B, Level 13A, Northpoint Offices, Mid Valley City, No. 1 Medan Syed Putra Utara, 59200 Kuala Lumpur	Malaysia
Sage One Pty Limited	Level 11, The Zenith Tower B, 821 Pacific Hwy, Chatswood, NSW 2067 Australia	Australia	Sage Software, Inc.	271 17th Street NW, Suite 1100 Atlanta, Georgia 30363	United States
Sage Online Holdings Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom	Sage South Africa (Pty) Ltd*	102 Western Service Road, Gallo Manor Ext 6, Gallo Manor, 2191, South Africa	South Africa

18 Group undertakings continued

Name	Registered address	Country	Name	Registered address	Country
Sage Overseas Limited (Branch Registration)	Atrium Defense, Paris la Defense, 10 Place de Belgique, 92250, Le Garenne Colombes, Paris	France	Sage sp. z o.o	Aleje Jerozolimskie 132, 02-305 Warsaw, Poland	Poland
Sage Overseas Limited Sucursal	Paseo Castellana 53, Madrid	Spain	Sage Spain, S.L.	Moraleja Building One – Planta 1, Parque Empresarial de La Moraleja, Avenida de Europa no19, 28108 Alcobendas, Madrid, Spain	Spain
Sage Overseas Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom	Sage Technologies Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland
Sage Pay (Dublin) Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland	Sage Treasury Company Limited*	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Sage Pay (GB) Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom	Sage Treasury Ireland Unlimited Company	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland
Sage Pay (Pty) Ltd	Netcash Square, 64 Parklands Main Road, Cape Town, 7441, South Africa	South Africa	Sage US LLP	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Sage Pay Europe Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom	Sage USD Hedgeco 1	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Sage Pay GmbH	Emil-von-Behring-Straße 8-14, 60439 Frankfurt am Main	Germany	Sage USD Hedgeco 2	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Sage Pay Ireland Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland	Sage Whitley Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Sage Pay S.L.U.	C/ Labastida, 10-12 28034, Madrid, Spain	Spain	Sagesoft	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Sage Payments (UK) Ltd	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom	Snowdrop Systems Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Sage People Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom	Snowdrop Systems Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy, Chatswood, NSW 2067 Australia	Australia
Sage People, Inc.	271 17th Street NW, Suite 1100 Atlanta, Georgia 30363	United States	Softline Australia Holdings Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy, Chatswood, NSW 2067 Australia	Australia
Sage Portugal – Software, S.A.	Edifício Olympus II, Av. Dom Afonso Henriques 1462, 4450, Matosinhos, Portugal	Portugal	Softline Holdings USA, Inc.	6561 Irvine Centre Drive, Irvine, California, 92618	United States
Sage S.A.	Buro & Design Center, Esplanade 1, 1020 Brussels	Belgium	Softline Software Holdings Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland
Sage SAS	Atrium Defense, Paris la Defense, 10 Place de Belgique, 92250, Le Garenne Colombes, Paris	France	Softline Software Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland
Sage Schweiz AG	Platz 10, Root D4, CH-6039, Switzerland	Switzerland	Softline Software USA, LLC	271 17th Street NW, Suite 1100, Atlanta, Georgia, 30363	United States
Sage Services GmbH	Karl-Heine-Straße 109-111, 04229, Leipzig	Germany	Softline Software, Inc.	271 17th Street NW, Suite 1100, Atlanta, Georgia, 30363	United States
Sage Singapore Holdings Pte. Ltd	12 Marina View, #25-02/03 Asia Square Tower 2, 01896, Singapore	Singapore	Sytax Sistemas S.A.	Rua Antonio Nagib Ibrahim, 350, part B, PostalCode 05036-60, in the city of São Paulo, State of São Paulo	Brazil
Sage Software	Tour Crystal 1, Niveau 9, Bd Sidi Mohammed Ben Abdellah, Casablanca, 20030, Morocco	Morocco	TAS Software Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland

Name	Registered address	Country	Name	Registered address	Country
Sage Software Asia Pte. Limited	12 Marina View, #25-02/03 Asia Square Tower 2, 01896, Singapore	Singapore	TAS Software Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Sage Software Australia Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy, Chatswood, NSW 2067 Australia	Australia	Tetra Limited*	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Sage Software Botswana (Proprietary) Limited	Plot 127, Kgale Court Unit 13, Gaborone International Finance Park, Gaborone	Botswana	Tonwomp Unlimited Company	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland
Sage Software Canada Holdings Ltd	3100, 111 – 5th Avenue SW, Calgary, Alberta T2P 5L3	Canada	Ulysoft	Immeuble Mélika, rez de chausse, rue Lac Windermere, Berges du Lac, 1053	Tunisia
Sage Software Canada Ltd	3100, 111 – 5th Avenue SW, Calgary, Alberta T2P 5L3	Canada			

* Direct subsidiary

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COMPANY BALANCE SHEET

At 30 September 2018

	Note	2018 £m	2017 £m
Fixed assets: investments	2	**3,088**	3,088
Current assets			
Cash at bank and in hand	3	**1**	1
Debtors – amounts due greater than one year £378m (2017: £353m)	4	**1,052**	968
		1,053	969
Creditors: amounts falling due within one year			
Trade and other payables	5	**(1,219)**	(1,088)
Net current liabilities		**(166)**	(119)
Total assets less current liabilities		**2,922**	2,969
Net assets		**2,922**	2,969
Capital and reserves			
Called up share capital	7.1	**12**	12
Share premium account		**548**	548
Other reserves	7.2	**(94)**	(107)
Profit and loss account		**2,456**	2,516
Total shareholders' funds		**2,922**	2,969

The Company's profit for the year was £103m (2017: £229m).

The financial statements on pages 203 to 209 were approved by the Board of Directors on 20 November 2018 and are signed on its behalf by:

Steve Hare
Chief Executive Officer and Chief Financial Officer

COMPANY STATEMENT OF CHANGES IN EQUITY

					Attributable to owners of the parent
	Called up share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m	Total equity £m
At 1 October 2017	**12**	**548**	**(107)**	**2,516**	**2,969**
Profit for the year	**–**	**–**	**–**	**103**	**103**
Total comprehensive income for the year ended 30 September 2018	**–**	**–**	**–**	**103**	**103**
Transactions with owners:					
Employee share option scheme:					
– Value of employee services, net of deferred tax	**–**	**–**	**–**	**18**	**18**
Utilisation of treasury shares	**–**	**–**	**13**	**(13)**	**–**
Proceeds of 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	**–**	**–**	**13**	**(163)**	**(150)**
At 30 September 2018	**12**	**548**	**(94)**	**2,456**	**2,922**

					Attributable to owners of the parent
	Called up share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m	Total equity £m
At 1 October 2016	12	544	(101)	2,415	2,870
Profit for the year	–	–	–	229	229
Total comprehensive income for the year ended 30 September 2017	–	–	–	229	229
Transactions with owners:					
Employee share option scheme:					
– Proceeds from shares issued	–	4	–	–	4
– Value of employee services, net of deferred tax	–	–	–	11	11
– Value of employee services on acquisition	–	–	–	21	21
Utilisation of treasury shares	–	–	3	(3)	–
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	(6)	(128)	(130)
At 30 September 2017	12	548	(107)	2,516	2,969

COMPANY ACCOUNTING POLICIES

Company accounting policies

Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standard 102 (FRS 102) "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Basis of accounting

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006. A summary of the more important Company accounting policies, which have been consistently applied, is set out below. These accounting policies have been consistently applied to all periods presented.

The Company is deemed a qualifying entity under FRS 102, and so may take advantage of the reduced disclosures permitted under the standard. As a result, the following disclosures have not been provided:

- a statement of cash flows and related disclosures under Section 7 Statement of Cash Flows and Section 3 Financial Statement Presentation paragraph 3.17(d);
- disclosures about financial instruments under Section 11 Basic Financial Instruments paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44, 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c) and Section 12 Other Financial Instruments Issues paragraphs 12.26 (in relation to those cross-referenced paragraphs from which a disclosure exemption is available), 12.27, 12.29(a), 12.29(b), and 12.29A; this exemption is permitted as equivalent disclosures are included in the consolidated financial statements of The Sage Group plc;
- disclosures about share-based payments under Section 26 Share-based Payment paragraphs 26.18(b), 26.19 to 26.21 and 26.23; this exemption is permitted as the Company is an ultimate parent, the share-based payment arrangements concern its own equity instruments, its separate financial statements are presented alongside the consolidated financial statements of The Sage Group plc and equivalent disclosures are included in those consolidated financial statements; and
- key management personnel compensation in total under Section 33 Related Party Disclosures paragraph 33.7.

Foreign currencies

Monetary assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange prevailing at the balance sheet date. Transactions in foreign currencies are converted into sterling at the rate prevailing at the dates of the transactions. All differences on exchange are taken to the profit and loss account.

Investments

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

Parent Company profit and loss account

No profit and loss account is presented for the Company as permitted by section 408 of the Companies Act 2006.

Details of the average number of people employed by the parent Company and the staff costs incurred by the Company are as follows.

Average monthly number of people employed (including Directors)	**2018 number**	2017 number
By segment:		
Northern Europe	**112**	305

Staff costs (including Directors on service contracts)	**2018 £m**	2017 £m
Wages and salaries	**10**	10
Social security costs	**2**	1
Post-employment benefits	**1**	–
Share-based payments	**2**	3
	15	14

Staff costs are net of recharges to other Group companies. During the year a number of employees transferred to another Group company. In the prior year their costs were recharged to other Group companies.

Auditor's remuneration

The audit fees payable in relation to the audit of the financial statements of the Company are £30,000 (2017: £30,000).

Directors' remuneration

Details of the remuneration of Executive and Non-executive Directors and their interest in shares and options of the Company are given in the audited part of the Directors' Remuneration Report on pages 103 to 128.

Share-based payments

The Company issues equity-settled share-based payments to certain employees and employees of its subsidiaries. Equity-settled share-based payments granted to employees of the Company are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the shares that will eventually vest allowing for the effect of non market-based vesting conditions.

Fair value is measured using the Black-Scholes or the Monte Carlo pricing models. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Company also provides certain employees and employees of its subsidiaries with the ability to purchase the Company's ordinary shares at a discount to the current market value at the date of the grant. For awards made to its own employees, the Company records an expense, based on its estimate of the discount related to shares expected to vest, on a straight-line basis over the vesting period.

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

For awards made to subsidiary employees, the fair value of awards made is recognised by the Company as an addition to the cost of investment in the employing subsidiary. Intergroup recharges to the employing subsidiary, up to the fair value of awards made to employees of that subsidiary, subsequently reverse the increase to the cost of investment.

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

Financial instruments

The accounting policy of the Company for financial instruments is the same as that shown in the Group accounting policies. The Company is taking the exemption for financial instruments disclosure, because disclosures are provided under IFRS 7 'Financial Instruments: Disclosures' in note 14 to the Group financial statements.

Dividends

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1 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.

2 Fixed assets: investments

Equity interests in subsidiary undertakings are as follows:

	£m
Cost	
At 1 October 2017	3,224
At 30 September 2018	**3,224**
Provision for diminution in value	
At 1 October 2017	136
At 30 September 2018	**136**
Net book value	
At 30 September 2018	3,088
At 30 September 2017	3,088

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

Subsidiary undertakings, included in the Group financial statements for the year ended 30 September 2018, are shown in note 18 of the Group financial statements. All of these subsidiary undertakings are wholly-owned. All subsidiaries are engaged in the development, distribution and support of business management software and related products and services for small and medium-sized businesses.

All operating subsidiaries' results are included in the Group financial statements. The accounting reference date of all subsidiaries is 30 September, except for Brazilian subsidiaries which have an accounting reference date of 31 December due to Brazilian statutory requirements.

3 Cash at bank and in hand

	2018 £m	2017 £m
Cash at bank and in hand	**1**	1

4 Debtors

	2018 £m	2017 £m
Prepayments and accrued income	**1**	1
Amounts owed by Group undertakings	**1,051**	967
	1,052	968

Of amounts owed by Group undertakings £378m (2017: £353m) is due greater than one year, on which interest is charged at 4.2% and is repayable in full on 21 October 2023 but may be repaid, in whole or in part, in advance of this date at the option of the borrower.

5 Trade and other payables

	2018 £m	2017 £m
Amounts owed to Group undertakings	**1,216**	1,077
Accruals and deferred income	**3**	11
	1,219	1,088

Amounts owed to Group undertakings are unsecured and attract a rate of interest of between 0.0% and 8.3% (2017: 0.0% and 8.3%).

6 Obligations under operating leases

	2018	2017
Total future minimum lease payments under non-cancellable operating leases falling due for payment as follows:	**Property, vehicles, plant and equipment £m**	Property, vehicles, plant and equipment £m
Within one year	**1**	1
Later than one year and less than five years	**5**	7
After five years	**3**	5
	9	13

The Company leases various offices under non-cancellable operating lease agreements. These leases have various terms, escalation clauses and renewal rights.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

7 Equity

7.1 Called up share capital

Issued and fully paid ordinary share of 14/77 pence each	**2018 shares**	**2018 £m**	2017 shares	2017 £m
At 1 October	**1,120,638,121**	**12**	1,119,480,363	12
Proceeds from shares issued	**151,174**	**–**	1,157,758	–
At 30 September	**1,120,789,295**	**12**	1,120,638,121	12

7.2 Other reserves

	Treasury shares £m	**Merger reserve £m**	**Capital redemption reserve £m**	**Total other reserves £m**
At 1 October 2017	**(170)**	**61**	**2**	**(107)**
Utilisation of treasury shares	**13**	**–**	**–**	**13**
At 30 September 2018	**(157)**	**61**	**2**	**(94)**

	Treasury shares £m	Merger reserve £m	Capital redemption reserve £m	Total other reserves £m
At 1 October 2016	(164)	61	2	(101)
Utilisation of treasury shares	3	–	–	3
Purchase of treasury shares	(9)	–	–	(9)
At 30 September 2017	(170)	61	2	(107)

Treasury shares

Purchase of treasury shares

Shares purchased under the Group's buyback programme are not cancelled but are retained in issue and represent a deduction from equity attributable to owners of the parent. 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 gifted nil shares (2017: 1,019,166) to the Employee Share Trust.

At 30 September 2018 the Group held 35,480,890 (2017: 38,503,265) of treasury shares.

Employee Share Trust

The Company holds treasury shares in a trust which was set up for the benefit of Group employees. The Trust purchases the Company's shares in the market or is gifted them by the Company for use in connection with the Group's share-based payments arrangements. The Trust holds 254,525 ordinary shares in the Company (2017: 961,715) at a cost of £2m (2017: £6m) and a nominal value of £nil (2017: £nil).

During the year, the 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).

The costs of funding and administering the scheme are charged to the profit and loss account of the Company in the period to which they relate. The market value of the shares at 30 September 2018 was £1m (2017: £7m).

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: – 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.	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. 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 disclose more ARR measures during the course of FY19 as it is a good indicator of the momentum of the business.

Measure/Description	Why we use it
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).
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.

A&RC
Audit and Risk Committee

AAMEA
Africa Australia Middle East Asia

AGM
Annual General Meeting

API
Application Program Interface

ASB
Annualised Subscriber Base

C4L
Customer For Life

CAGR
Compound Annual Growth Rate

CBC
Customer Business Centre

CDP
Carbon Disclosure Project

CFO
Chief Financial Officer

CGU
Cash Generating Unit

CMD
Capital Markets Day

CR
Corporate Responsibility

CRM
Customer Relationship Management

DEFRA
Department for Environment, Food & Rural Affairs

DTR
Disclosure Guidance and Transparency Rules

EBITDA
Earnings Before Interest Taxes Depreciation and Amortisation

EBT
Employee Benefit Trust

EPS
Earnings Per Share

ERP
Enterprise Resource Planning

ESOS
Executive Share Operating Scheme

EU
European Union

FCF
Free Cash Flow

FY16
Financial year ending 30 September 2016

FY17
Financial year ending 30 September 2017

FY18
Financial year ending 30 September 2018

G&A
General and Administrative

GAC
Global Accounting Core

GHG
Green House Gas

HR
Human Resources

HCM
Human Capital Management

IFRS
International Financial Reporting Standards

ISV
Independent Software Vendor

KPI
Key Performance Indicator

LSE
London Stock Exchange

LTIP
Long Term Incentive Plan

NPS
Net Promoter Score

PBT
Profit Before Tax

PSP
Performance Share Plan

R&D
Research and Development

S&M
Sales and Marketing

SaaS
Software as a Service

SSRS
Software & Software Related Services

TSR
Total Shareholder Return

VSGM
Vision, Strategy, Goals, Measures

Financial calendar

Annual General Meeting	
Dividend payments	
Final payable – year ended 30 September 2018	1 March 2019
Interim payable – period ending 31 March 2019	TBC June 2019
Results announcements	
Interim results – period ending 31 March 2019	8 May 2019
Final results – year ending 30 September 2019	20 November 2019

Shareholder information online

The Sage Group plc's registrars are able to notify shareholders by email of the availability of an electronic version of shareholder information. Whenever new shareholder information becomes available, such as The Sage Group plc's interim and full year results, Equiniti will notify you by email and you will be able to access, read and print documents at your own convenience.

To take advantage of this service for future communications, please go to www.shareview.co.uk, where full details of the shareholder portfolio service are provided. When registering for this service, you will need to have your 11 character shareholder reference number to hand, which is shown on your dividend tax voucher, share certificate or form of proxy.

Should you change your mind at a later date, you may amend your request to receive electronic communication by entering your shareview portfolio online and amending your preferred method of communication from "email" to "post". If you wish to continue receiving shareholder information in the current format, there is no need to take any action.

Our corporate website has more information about our business, products, investors, media, sustainability, and careers at Sage Group.

Stay up to date at www.sage.com

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Information for investors is provided on the internet as part of the Group's website which can be found at: www.sage.com/investors

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Company number 2231246

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