Contents

Group financial statements

Independent Auditor's Report to the members of The Sage Group plc.

Opinion

In our opinion:

- The Sage Group plc's consolidated 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 2020 and of the Group's profit for the year then ended;
- the consolidated 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 consolidated 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 also 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 2020	Company balance sheet as at 30 September 2020
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	Related notes 1 to 7 to the financial statements including a summary of significant accounting policies
Consolidated statement of changes in equity for the year then ended	
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 consolidated financial statements is applicable law and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board and 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 pages 66 to 75 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 66 in the Annual Report that they have carried out a robust assessment of the emerging and 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 149 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 twelve 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 pages 76 to 77 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 • Recoverability of goodwill and other intangible assets allocated to the Intacct and Iberia cash generating units ('CGU')
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 91% of adjusted Profit before tax, 91% of Revenue and 95% of Total assets.
Materiality	• Overall Group materiality of £16.3m which represents 5% of adjusted Profit before tax*.

Note:

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

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Revenue recognition *Refer to the Audit and Risk Committee Report (page 115); Accounting policies (page 173); and notes 2.1 and 3.1 of the consolidated financial statements (pages 177 to 178 and 181 to 182)* The Group has reported revenues of £1,903m (FY19: £1,936m) with deferred income at 30 September 2020 of £600m (FY19: £645m). We assessed revenue recognition as a fraud risk as revenue forms the basis for certain of the Group's key performance indicators, both in external communications and for management incentives. We identified two 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 when sold together as a bundle. Our judgement is that the level of risk in this area remains consistent with the prior year.	**Walkthroughs and controls** • We performed walkthroughs of each significant class of revenue transactions and assessed the design effectiveness of key controls. • For one component, we tested the operating effectiveness of certain internal controls as this was identified as the most efficient audit approach. **Timing of revenue recognition, including cut-off and deferral** • We evaluated management's determination of whether the nature of the Group's products and services results in the provision of a good or service at a point in time or over a contractual term., by reviewing a sample of customer contracts against the requirements of IFRS 15. This included the assessment of new or one-off transactions, by comparing the accounting treatment adopted by management to the Group accounting policy and IFRS 15. • At all revenue generating full and specific scope components (excluding Brazil due to the disposal) we adopted a data analysis approach in relation to revenue and receivables. Our procedures involved testing full populations of transaction data and included correlation analysis between invoiced revenue, receivables and cash, as well as analysis of credit notes. • In respect of deferred income, for products and services where revenue is earned over a contractual term, we: – tested a sample of transactions to determine that the amount of revenue recognised in the year and the amount deferred at the balance sheet date were accurately calculated based on progress of the contract, and/or – at certain components, with support from EY IT team members, we utilised bespoke data analysis to facilitate independent reperformance of certain management calculations, including deferred income. This included testing a sample of the data inputs against third party evidence, such as the contract with the customer. • We have performed cut-off testing around for a sample of revenue items/credit notes booked either side of the year-end to determine that revenue was recognised in the period in which the contract was agreed by both Sage and the customer and the software has been made available to the customer. **Measurement of revenue attributed to products and services provided in accordance with IFRS 15** • 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 based upon the Standalone Selling Price (SSP) guidance under IFRS 15, and (2) that the allocation of the discount was consistent with the relative fair value of each element of the bundle. **Management override** • Audit teams at full and specific scope components with significant revenue streams performed certain specific procedures to address the risk of management override, including testing to identify unusual, new or significant transactions or contractual terms and targeted journal entry testing over manual journal entries. **Disclosures** • We also considered the adequacy of the Group's disclosures relating to revenue recognition in note 1 (Critical accounting estimates and judgements) and note 3.1 (Revenue).	Based on the procedures performed, we consider the recognition of revenue to be appropriate for the year ended 30 September 2020. We did not identify: • Evidence of material misstatement as a result of inappropriate timing of revenue recognition, cut-off or deferral; or • Inappropriate measurement of revenue attributed to products and services provided when sold together as a bundle. Furthermore, we consider the disclosures appropriate.

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Recoverability of goodwill and other intangible assets allocated to the Intacct and Iberia cash generating units ('CGU') *Refer to the Audit and Risk Committee Report (page 116); Accounting policies (page 173); and note 6.1 of the consolidated financial statements (pages 194 to 195)* Goodwill and other intangible assets of £1,962m and £212m are recognised in the Group's consolidated balance sheet at 30 September 2020. Included in these balances are: • North America Intacct Cash Generating Unit ('CGU') – goodwill of £491m and other intangible assets of £120m. • Iberia CGU – goodwill of £137m and other intangible assets of £4m. We continue to include the Intacct CGU within our Key Audit Matters due to the estimation involved in determining the future performance of the business to be included within the 'Value in Use' model. The 'Value in Use' model forecasts for a four-year period to reflect the ongoing investment in new customer acquisition in 2017. As a result of this investment Intacct is currently loss making but seeing significant growth in revenues. We have included the Iberia CGU as management have identified that a reasonably possible change in the average medium-term revenue growth rate could give rise to an impairment adjustment. The estimation uncertainty increased for both the Intacct and Iberia CGUs as a result of the effects of Covid-19 on the macroeconomic factors used in developing the assumptions.	Valuation model Management performed its annual impairment assessment as at 30 June 2020. • We tested the methodology applied in the value in use calculations for the Intacct and Iberia CGUs as compared to the requirements of IAS 36, Impairment of Assets, including the appropriateness of the forecast periods, and the mathematical accuracy of management's model. We considered any further impairment triggers between management's assessment date and the year end. No such triggers were identified. Key assumptions in the valuation We evaluated the key underlying assumptions used in the valuations including growth rates, margin and the discount rates applied. • We assessed the appropriateness of the key assumptions used in the FY21 forecasts including new customer acquisition, upsell/add-ons and level of churn by assessing these against the results achieved in FY20 and the prior track record of growth. • For forecasts for FY21-FY23 (Iberia) and FY21-FY24 (Intacct), we considered the latest market trends to evaluate whether there is evidence that the forecast growth rates assumed for this period should be lower than the FY20 current growth rate. • We tested the reasonableness of long-term growth rates applied after the forecast period by comparing the rates used by management to macroeconomic forecasts. • We tested the discount rates, with the involvement of our internal valuation specialists, by reference to comparable market data and the specific risk profile relevant to each respective CGU, compared to the rates used by management. • For the Intacct CGU, we evaluated if and why the forecasts differed from the original acquisition plan used in the purchase price allocation at the date of acquisition and evaluated management's track record of delivering against budget since acquisition. • For the Iberia CGU, we evaluated the reasons the forecasts differed from the prior year impairment model and evaluated management's track record of delivering against budget. • We performed downside sensitivity analysis on key assumptions in the models, including combinations thereof, to understand the parameters that, should they arise, cause an impairment of goodwill. Disclosures • We considered the appropriateness of the related disclosures provided in note 6.1 in the consolidated financial statements, in particular, the disclosure of the forecast period used in the value in use calculation and sensitivity disclosures.	We agree with management's conclusion that no impairment of Intacct or Iberia goodwill is required in the current year. We have concluded that the methodology applied is reasonable, that the forecast period is appropriate and that management's models are mathematically accurate. Management have also established a reliable methodology for determining the underlying assumptions, including forecast growth rates, margin and discount rates. The additional sensitivity disclosures in note 6.1 of the Group financial statements adequately reflect that a reasonably possible change in certain key assumptions could lead to a different conclusion in respect of the recoverability of goodwill.

In the prior year, our auditor's report included a key audit matter in relation to the first time application of IFRS 15. In the current year, IFRS 15 has been embedded within the standard accounting processes of the Group hence is included within our revenue recognition Key Audit Matter, as opposed to being reported separately.

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 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 23 reporting components of the Group, we selected 11 components which represent the principal business units within the Group. These include entities within the United Kingdom and Ireland, France, North America, Spain, Germany, South Africa and Brazil (disposed of part way through the period).

Of the 11 components selected, we performed an audit of the complete financial information of 6 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 5 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.

The charts below illustrate the coverage obtained from the work performed by our audit teams.

	2020				2019		
Reporting components	Number	% Group adjusted Profit before tax*	% Group Revenue	Note	Number	% Group adjusted Profit before tax*	% Group Revenue
Full scope	6	76%	63%	1,2	6	77%	61%
Specific scope	5	15%	28%	2,3	5	18%	28%
Full and specific scope coverage	11	91%	91%		11	95%	89%
Remaining components	12	9%	9%	4	9	5%	11%
Total Reporting components	**23**	**100%**	**100%**		**20**	**100%**	**100%**

Notes:

1. 3 of the 6 full scope components relate to the Parent Company and other corporate entities whose activities include the Group's treasury management and consolidation adjustments. The other 3 full scope components are UKI, France, and North America Sage Business Solutions Division.
2. The Group audit risk in relation to revenue recognition was subject to audit procedures at each of the full and specific scope locations with significant revenue streams (being 3 full scope components and 5 specific scope components). The Group audit risk in relation to the recoverability of goodwill and other intangible assets allocated to the Intacct and Iberia CGUs were subject to audit procedures by the Primary audit team on the entire balance, with support from the Intacct and Iberia component audit teams on certain procedures.
3. Specific scope components are Brazil (disposed of part way through the period), Germany, North America Intacct, Spain, and South Africa. The audit scope of these specific scope 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. In the current year, the remaining 11 components contributed a net 9% of adjusted Profit before tax* and the individual contribution of these components ranged from (1)% to 3% of the Group's adjusted Profit before tax*. For 5 components, being Sage People, Asia, Australia, Portugal and Switzerland, the Primary audit team performed review scope procedures, including analytical review and inquiries of component management (FY19: 5 components being Asia, Australia, Middle East, Switzerland and Sage People). For the remaining 6 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 20 to 23 was as a result of acquisitions and disposals made in the year.

Impact of the Covid-19 pandemic

As a result of the Covid-19 outbreak and resulting lockdown restrictions we have modified our audit strategy to allow for the year end audit to be performed remotely at both the component and Group locations. This approach was supported through remote user access to the Group's financial systems and the use of EY software collaboration platforms for the secure and timely delivery of requested audit evidence.

We have also revisited our procedures in respect of the Directors' going concern assessment, taking into account the nature of the Group, its business model and related risks. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including the consistency of the cash flow forecasts, the key assumptions within the scenarios modelled and the available sources of liquidity with the findings from other areas of the audit. We assessed both the impact of additional stress testing and the availability of controllable mitigating future actions on the going concern assessment. We have also reviewed the disclosures contained within the Annual Report and consolidated financial statements in relation to this issue and consider them to describe adequately the impact of Covid-19 on the Group as at 30 September 2020.

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 6 full scope components, audit procedures were performed on 3 of these directly by the Primary audit team, with the remaining 3 being performed by component audit teams. For the 3 full scope and 5 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 Primary audit team also performed review procedures directly on a further 5 components.

Kathryn Barrow has become Senior Statutory Auditor in the current year, following Alison Duncan completing her 5-year rotation. As part of the transition, Kathryn performed a series of virtual site visits and video/teleconferences with key audit locations (see below for further Covid-19 impacts and response). These visits included discussions with the component teams on audit strategy, risk identification, as well as meeting with the respective local management teams. Separate audit planning sessions were held with key members of the Group finance team and Audit and Risk Committee Chair, in which Kathryn communicated the audit plan and the approach to key judgements and estimates. We have continued our established approach to involvement in component teams through the review of planning and conclusion deliverables. Kathryn also participated in all component teams' closing meeting calls in which key conclusions were discussed.

The Primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed relevant, selected 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.

Impact of the Covid-19 pandemic

The Covid-19 outbreak and lockdown restrictions have been in place for a significant portion of the Group's financial year. As a result of these measures, the site visits were held virtually through the use of video or teleconferencing facilities, including meetings with local Sage management. Close meetings for all component teams were held via video conference in October 2020 with attendance from the Primary team, including the senior statutory auditor.

For all components, the year-end review of relevant audit work papers was facilitated by the EY electronic audit file platform, screen sharing or the provision of copies of work papers direct to the Group audit team.

Based upon the above approach we are satisfied that we have been able to perform sufficient and appropriate oversight of our component teams.

Our application of materiality

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

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £16.3m (2019: £18.8m), which is 5% (2019: 5%) of Profit before tax adjusted for non-recurring items reported by the Group. We believe that Profit before tax adjusted for non-recurring items provides us with the most relevant performance measure to the stakeholders of the entity. Non-recurring items are set out in note 3.6 of the Group's financial statements and are summarised in the graphic below.

We determined materiality for the Parent Company to be £41.4m (2019: £27.9m), which is 1% (2019: 1%) of equity. We believe that equity is an appropriate basis to determine materiality given the nature of the Parent Company as the holding company of the Group. 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.

Starting basis	• Total profit before tax of £373m
Adjustments	• Adjustments for non-recurring items • Net gain on disposal of subsidiaries – (£141m) • Restructuring costs – £22m • Impairment of goodwill – £19m • Property restructuring costs – £21m • Office relocation – £33m
Materiality	• Totals £327m • Materiality of £16.3m (5% of Profit before tax adjusted for non-recurring items)

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

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 75% (2019: 50%) of our planning materiality, namely £12.2m (2019: £9.4m). We have set performance materiality at this percentage due to improvements in the control environment and a lower likelihood of misstatements.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £1.1m to £6.9m (2019: £0.9m to £6.3m).

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 £0.8m (2019: £0.9m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

The other information comprises the information included in the Annual Report set out on pages 1 to 154, 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 154** – 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 committee reporting set out on page 113** – 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 79** – 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 those reports 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 154, 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:

- The Primary team obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are those that relate to the reporting framework (IFRS, FRS 102, the Companies Act 2006 and UK Corporate Governance Code), the relevant tax compliance regulations in the jurisdictions in which the Group operates and the EU General Data Protection Regulation (GDPR).
- 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 and attendance at all meetings of the Audit and Risk Committee, as well as consideration of the results of our audit procedures across the Group to either corroborate or provide contrary evidence which was then followed up.

- Based on our understanding we designed our audit procedures to identify non-compliance with laws and regulations, including instructions to full and specific scope component audit teams. At a Group level our procedures involved: enquiries of Group management and those charged with governance, legal counsel and internal audit; and journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business. At a component level, our full and specific scope component audit team's procedures included enquiries of component management; journal entry testing; and focused testing, including as referred to in the key audit matters section above.
- 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 assessing whistleblowing incidences for those with a potential financial reporting impact. We also considered performance targets and their propensity to influence efforts made by management to manage revenue and earnings. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, including areas impacting Group key performance indicators or management remuneration, we performed audit procedures to address each identified fraud risk or other risk of material misstatement. These procedures included those on revenue recognition detailed above, the assessment of items identified by management as non-recurring and testing manual journals and were designed to provide reasonable assurance that the financial statements were free from material fraud or error.

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 25 February 2020 to audit the financial statements for the year ending 30 September 2020 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 6 years, covering the years ending 30 September 2015 to 30 September 2020.
- 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.

Ernst + Young LLP

Kathryn Barrow (Senior statutory auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor
London
20 November 2020

Notes:

1. The maintenance and integrity of The Sage Group plc. web site 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 web site.
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 2020

	Note	Underlying 2020 £m	Adjustments (note 3.6) 2020 £m	Statutory 2020 £m	Underlying as reported* 2019 £m	Adjustments (note 3.6) 2019 £m	Statutory 2019 £m
Revenue	2.1, 3.1	**1,903**	**–**	**1,903**	1,936	–	1,936
Cost of sales		**(126)**	**–**	**(126)**	(138)	–	(138)
Gross profit		**1,777**	**–**	**1,777**	1,798	–	1,798
Selling and administrative expenses		**(1,366)**	**(7)**	**(1,373)**	(1,350)	(66)	(1,416)
Operating profit	2.2, 3.2, 3.3, 3.6	**411**	**(7)**	**404**	448	(66)	382
Finance income	3.5	**3**	**–**	**3**	6	2	8
Finance costs	3.5	**(28)**	**(6)**	**(34)**	(29)	–	(29)
Profit before income tax		**386**	**(13)**	**373**	425	(64)	361
Income tax expense	4	**(87)**	**24**	**(63)**	(116)	21	(95)
Profit for the year		**299**	**11**	**310**	309	(43)	266
Profit attributable to:							
Owners of the parent		**299**	**11**	**310**	309	(43)	266
Earnings per share attributable to the owners of the parent (pence)							
• Basic	5	**27.43p**		**28.38p**	28.40p		24.49p
• Diluted	5	**27.21p**		**28.15p**	28.17p		24.29p

All operations in the year relate to continuing operations.

Note:

* Underlying as reported is at 2019 reported exchange rates.

Consolidated statement of comprehensive income

For the year ended 30 September 2020

	Note	2020 £m	2019 £m
Profit for the year		**310**	266
Other comprehensive (expense)/income:			
Items that will not be reclassified to profit or loss:			
Actuarial loss on post-employment benefit obligations	10, 14.4	**–**	(1)
		–	(1)
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations	14.3	**(43)**	42
Exchange differences recycled through income statement on sale of foreign operations	14.3	**43**	(4)
		–	38
Other comprehensive income for the year, net of tax		**–**	37
Total comprehensive income for the year		**310**	303
Total comprehensive income for the year attributable to:			
Owners of the parent		**310**	303

Consolidated balance sheet

As at 30 September 2020

	Note	2020 £m	2019 Restated* £m
Non-current assets			
Goodwill	6.1	**1,962**	2,083
Other intangible assets	6.2	**212**	245
Property, plant and equipment	7	**173**	117
Other financial assets		**1**	4
Trade and other receivables	8.1	**86**	73
Deferred income tax assets	11	**35**	31
		2,469	2,553
Current assets			
Trade and other receivables	8.1	**302**	364
Current income tax asset		**5**	3
Cash and cash equivalents (excluding bank overdrafts)	12.3	**831**	371
Assets classified as held for sale	15.3	**108**	63
		1,246	801
Total assets		**3,715**	3,354
Current liabilities			
Trade and other payables	8.2	**(297)**	(291)
Current income tax liabilities		**(13)**	(32)
Borrowings	12.4	**(20)**	(122)
Provisions	9	**(19)**	(11)
Deferred income	8.3	**(593)**	(637)
Liabilities classified as held for sale	15.3	**(73)**	(33)
		(1,015)	(1,126)
Non-current liabilities			
Borrowings	12.4	**(970)**	(643)
Post-employment benefits	10	**(23)**	(25)
Deferred income tax liabilities	11	**(14)**	(26)
Provisions	9	**(31)**	(15)
Trade and other payables		**(3)**	(7)
Deferred income	8.3	**(7)**	(8)
		(1,048)	(724)
Total liabilities		**(2,063)**	(1,850)
Net assets		**1,652**	1,504
Equity attributable to owners of the parent			
Ordinary shares	14.1	**12**	12
Share premium		**548**	548
Translation reserve	14.3	**123**	123
Merger reserve	14.3	**61**	61
Retained earnings		**908**	760
Total equity		**1,652**	1,504

* 2019 restated for finalisation of the fair value of assets acquired and liabilities assumed in the acquisition of Ocrex Limited, completed in 2019 (see notes 1 and 15.1).

The consolidated financial statements on pages 166 to 232 were approved by the Board of Directors on 19 November 2020 and are signed on their behalf by:

J.A. C Howell.

Jonathan Howell
Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 30 September 2020

		Attributable to owners of the parent					
	Note	Ordinary shares £m	Share premium £m	Translation reserve £m	Merger reserve £m	Retained earnings £m	Total equity £m
At 1 October 2019 as originally presented		12	548	123	61	760	1,504
Adjustment on initial application of IFRS 16 net of tax	17	–	–	–	–	(7)	(7)
At 1 October as adjusted		12	548	123	61	753	1,497
Profit for the year		–	–	–	–	310	310
Other comprehensive income/(expense):							
Exchange differences on translating foreign operations	14.3	–	–	(43)	–	–	(43)
Exchange differences recycled through income statement on sale of foreign operations	14.3	–	–	43	–	–	43
Total comprehensive income for the year ended 30 September 2020		–	–	–	–	–	–
Transactions with owners:							
Employee share option scheme:							
• Value of employee services including deferred tax	14.4	–	–	–	–	29	29
Proceeds from issuance of treasury shares	14.4	–	–	–	–	9	9
Share Buyback Programme		–	–	–	–	(7)	(7)
Dividends paid to owners of the parent	14.4, 14.5	–	–	–	–	(186)	(186)
Total transactions with owners for the year ended 30 September 2020		–	–	–	–	(155)	(155)
At 30 September 2020		12	548	123	61	908	1,652

Consolidated statement of changes in equity

For the year ended 30 September 2019

		Attributable to owners of the parent					
	Note	Ordinary shares £m	Share premium £m	Translation reserve £m	Merger reserves £m	Retained earnings £m	Total equity £m
At 1 October 2018 as originally presented		12	548	85	61	621	1,327
Adjustment on initial application of IFRS 15 net of tax		–	–	–	–	24	24
Adjustment on initial application of IFRS 9 net of tax		–	–	–	–	(5)	(5)
At 1 October as adjusted		12	548	85	61	640	1,346
Profit for the year		–	–	–	–	266	266
Other comprehensive income/(expense):							
Exchange differences on translating foreign operations	14.3	–	–	42	–	–	42
Exchange differences recycled through income statement on sale of foreign operations	14.3	–	–	(4)	–	–	(4)
Actuarial loss on post-employment benefit obligations	14.4	–	–		–	(1)	(1)
Total comprehensive income for the year ended 30 September 2019		–	–	38	–	(1)	37
Transactions with owners:							
Employee share option scheme:							
• Value of employee services including deferred tax	14.4	–	–	–	–	33	33
Proceeds from issuance of treasury shares	14.4	–	–	–	–	3	3
Dividends paid to owners of the parent	14.4, 14.5	–	–	–	–	(181)	(181)
Total transactions with owners for the year ended 30 September 2019		–	–	–	–	(145)	(145)
At 30 September 2019		12	548	123	61	760	1,504

Consolidated statement of cash flows

For the year ended 30 September 2020

	Note	**2020 £m**	2019 £m
Cash flows from operating activities			
Cash generated from continuing operations	12.1	**527**	586
Interest paid		**(28)**	(26)
Income tax paid		**(93)**	(88)
Net cash generated from operating activities		**406**	472
Cash flows from investing activities			
Acquisitions of subsidiaries, net of cash acquired	15.1	**–**	(41)
Investment in non-current asset		**–**	(3)
Disposal of subsidiaries, net of cash disposed	15.3	**216**	70
Proceeds on settlement of equity investment		**–**	17
Purchases of intangible assets	6.2	**(16)**	(15)
Purchases of property, plant and equipment	7	**(24)**	(27)
Interest received	3.5	**3**	6
Net cash generated from investing activities		**179**	7
Cash flows from financing activities			
Proceeds from issuance of treasury shares		**9**	3
Proceeds from borrowings		**302**	414
Repayments of borrowings		**(167)**	(594)
Capital element of lease payments		**(38)**	–
Movements in cash held on behalf of customers		**–**	(78)
Borrowing costs		**(1)**	(1)
Share Buyback Programme		**(7)**	–
Dividends paid to owners of the parent	14.5	**(186)**	(181)
Net cash used in financing activities		**(88)**	(437)
Net increase in cash, cash equivalents and bank overdrafts (before exchange rate movement)		**497**	42
Effects of exchange rate movement	12.2	**(21)**	8
Net increase in cash, cash equivalents and bank overdrafts		**476**	50
Cash, cash equivalents and bank overdrafts at 1 October	12.2	**372**	322
Cash, cash equivalents and bank overdrafts at 30 September	12.2	**848**	372

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 differ 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 Ocrex Limited that completed on 27 September 2019. Details are set out in note 15.1.

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

New or amended accounting standards.

The impacts of IFRS 16 "Leases" and Amendments to IFRS 3 "Business Combinations: Definition of a Business" which became effective for the first time this financial year are detailed below. There are no other IFRS, IAS amendments or IFRIC interpretations effective for the first time this financial year that have had a material impact on the Group.

IFRS 16

As disclosed in our Annual Report 2019, the Group has adopted IFRS 16 using the modified retrospective approach to transition permitted by the standard. Under this approach, the cumulative impact of the change in accounting policy is recognised in equity on 1 October 2019 and the financial statements for the prior year are not restated. IFRS 16 replaces the previous standard on lease accounting, IAS 17.

Information on the changes resulting from the adoption of IFRS 16 and quantitative information on their impact at 1 October 2019 are set out in note 17.

Amendments to IFRS 3

The Group has early adopted these amendments for business combinations and asset acquisitions occurring on or after 1 October 2019, as permitted by the transitional provisions for the amendments. The amendments would otherwise have become mandatory for the Group's business combinations and asset acquisitions occurring on or after 1 October 2020. The amendments clarify the definition of a business under IFRS 3 to help companies to determine whether an acquisition is of a business or a group of assets. The acquisition of a business is accounted for as a business combination whereas the acquisition of a group of assets is accounted for by allocating the cost of the transaction to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Goodwill is recognised only when acquiring a business.

The amendments also introduce an optional "concentration test" that permits a simplified assessment of whether an acquired set of activities and assets is not a business. If substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, the concentration test is met, and the acquisition is not of a business.

The Group has applied the concentration test to the acquisition of HR Bakery Limited on 28 November 2019. The transaction met the test and as a result has been accounted for as an acquisition of a group of assets and primarily of an intangible technology asset. This treatment has not resulted in any material difference to the Group's financial statements compared to accounting for the transaction as a business combination.

Basis of preparation and critical accounting estimates and judgements *continued*

1 Basis of preparation and critical accounting estimates and judgements *continued*

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 2 to 77.

The possible continuing and future impact of Covid-19 on the Group has been considered in the preparation of the financial statements including within our evaluation of critical accounting estimates and judgements which are detailed further below.

The Directors have reviewed liquidity and covenant forecasts for the Group for the period to 31 March 2022, which reflect the expected impact of Covid-19 on trading. In addition to the global economic shock severe but plausible scenario (as described within the Viability Statement on pages 76 and 77), further stress testing has been performed with the impact of more severe increases in churn and significantly reduced levels of new customer acquisitions being considered. In these severe stress scenarios, the Group continues to have sufficient resources to continue in operational existence. In the event that more severe impacts occur, controllable mitigating actions are available to the Group should they be required.

The Directors also reviewed the results of reverse stress testing performed to provide an illustration of the level of churn and deterioration in new customer acquisition which would be required to trigger a breach in the Group's covenants or exhaust cash down to minimum working capital requirements. The probability of these factors occurring is deemed to be remote given the resilient nature of the subscription-based business model, robust balance sheet and continued strong cash conversion of the Group.

After making enquiries, the Directors have a reasonable expectation that Sage has adequate resources to continue in operational existence for at least 12 months from the date of signing these financial statements. 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.

Further details for adopting the going concern basis are set out in the Directors' Report on page 149.

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 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".

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 end users. The key judgement is determining whether the business partner is a customer of the Group. The key criteria in this determination is whether the business partner has taken control of the product. Considering the nature of Sage's subscription products and support services, this is usually assessed based on whether the business partner has responsibility for payment, has discretion to set prices, and takes on the risks and rewards of the product from Sage.

Where the business partner is a customer of Sage, discounts are recognised as a deduction from revenue.

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

An additional area of judgement is the recognition and deferral of revenue on on-premise subscription offerings, for example the sale of a term licence with an annual maintenance and support contract as part of a subscription contract. In such instances, the transaction price is allocated between the constituent performance obligations on the basis of standalone selling prices (SSPs). Judgement is required when estimating SSPs. The Group has established a hierarchy to identify the SSPs that are used to allocate the transaction price of a customer contract to the performance obligations in the contract. Where SSPs for on-premise offerings are observable and consistent across the customer base, SSP estimates are derived from pricing history. Where there are no directly observable estimates available, comparable products are utilised as a basis of assessment or the residual approach is used. Under the residual approach, the SSP for the offering is estimated to be the total transaction price less the sum of the observable SSPs of other goods or services in the contract. The Group uses this technique in particular for estimating the term licence SSP sold as part of its on-premise subscription offerings as Sage has previously not sold term licences on a stand-alone basis (i.e. the selling price is uncertain).

Goodwill impairment

A key judgement is the ongoing appropriateness of the cash-generating units ("CGUs") for the purpose of impairment testing. CGUs are assessed in the context of the Group's evolving business model, the Sage strategy and the shift to global product development. Management continues to monitor goodwill at a regional level, thus it was determined that the use of CGUs based on geographical area of operation remains appropriate.

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, are disclosed in note 6.1.

Trade receivables

Due to Covid-19 the timing and level of impact of business failures is uncertain. Therefore, the expected credit loss allowance against trade receivables is a source of estimation uncertainty. Current and expected collection of trade receivables since the start of the Covid-19 pandemic has been modelled on a region-specific basis, taking into account macroeconomic factors, such as revised GDP outlooks and government support available and other regional specific microeconomic factors. Management have provided an additional £17m expected credit loss provision representing an additional 6% loss rate above historical rates.

Classification and measurement of businesses held for sale

As detailed in note 15.3, certain of the Group's businesses have been classified as businesses held for sale. Classification as held for sale requires judgements to be made on whether the qualifying criteria have been met. The Group considers these businesses to meet the criteria to be classified as held for sale for the following reasons:

- Management has approved the plans to sell these businesses;
- The businesses are available for immediate sale;
- The sales are expected to be completed within one year from the date of initial classification; and
- Active programmes to locate a buyer have been initiated and the businesses are being marketed for sale at a sales price reasonable in relation to their fair value.

1 Basis of preparation and critical accounting estimates and judgements *continued*

The assets of businesses held for sale are measured at the lower of their carrying amount and their fair value less costs to sell. Determination of fair value less costs to sell requires estimates to be made of the selling price that might be obtained for the business and the costs to be incurred on completing the transaction. Management has reached this conclusion based upon its experience of similar transactions in the past and bids received from potential buyers to date.

Leases

Key judgements made in calculating the transition impact on the initial application of IFRS 16 include determining the lease term for property leases with extension or termination options and determining the incremental borrowing rates used as discount rates for property leases. For further information on the judgements made on the initial application of IFRS 16 to the Group's accounting for leases, see note 17.

Future accounting standards

The Directors also considered the impact on the Group of new and revised accounting standards, interpretations or amendments which have been issued but were not effective for the Group for the year ended 30 September 2020. None are expected to have a material impact on the consolidated financial statements when first applied.

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. The Group's Latin America operations were sold during the current year.

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. Underlying measures are adjusted to exclude items which would distort the understanding of the performance for the year or comparability between periods: a) Recurring items include 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 b) 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. 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. In addition to the adjustments made to the Underlying measures, 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).

2 Segment information *continued*

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 its designated responsibility for the allocation of resources to operating segments and assessing their performance, through the Monthly Business Reviews chaired by the Chief Operating 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 (eight following the disposal of the Brazilian businesses during the year): North America (excluding North America Sage Intacct) (US and Canada), North America Sage Intacct, Northern Europe (UK and Ireland), Central Europe (Germany, Austria and Switzerland), France, Iberia (Spain and Portugal), Africa and the Middle East, Asia (including Australia) and Latin America. For reporting under IFRS 8, the Group is divided into three reportable segments. These segments are as follows:

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

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, 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 North America Sage Intacct) and North America Sage 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 North America Sage Intacct) and North America Sage Intacct share the same North American geographical market and therefore share the same economic characteristics.

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.

2.1 Revenue by segment

	Year ended 30 September 2020			Change		
	Statutory and Underlying £m	Organic adjustments* £m	Organic £m	Statutory	Underlying	Organic
Recurring revenue by segment						
North America	**634**	**–**	**634**	10.4%	10.5%	10.9%
Northern Europe	**377**	**–**	**377**	10.6%	10.7%	9.4%
Central and Southern Europe	**508**	**(41)**	**467**	3.7%	4.2%	4.2%
International	**175**	**(61)**	**114**	(15.5%)	(4.9%)	10.7%
Recurring revenue	**1,694**	**(102)**	**1,592**	5.1%	6.8%	8.5%
Other revenue by segment						
North America	**58**	**–**	**58**	(30.0%)	(30.0%)	(15.6%)
Northern Europe	**35**	**(17)**	**18**	(46.6%)	(46.6%)	(32.8%)
Central and Southern Europe	**82**	**(5)**	**77**	(30.3%)	(30.1%)	(28.9%)
International	**34**	**(11)**	**23**	(40.2%)	(34.4%)	(33.2%)
Other revenue	**209**	**(33)**	**176**	(35.3%)	(34.2%)	(26.1%)
Total revenue by segment						
North America	**692**	**–**	**692**	5.3%	5.4%	8.1%
Northern Europe	**412**	**(17)**	**395**	1.4%	1.4%	6.3%
Central and Southern Europe	**590**	**(46)**	**544**	(2.9%)	(2.4%)	(2.2%)
International	**209**	**(72)**	**137**	(20.9%)	(11.5%)	(0.2%)
Total revenue	**1,903**	**(135)**	**1,768**	(1.7%)	0.0%	3.7%

	Year ended 30 September 2020			Change		
	Statutory and Underlying £m	Organic adjustments* £m	Organic £m	Statutory	Underlying	Organic
Total recurring revenue by type						
Software Subscription Revenue	**1,210**	**(69)**	**1,141**	16.0%	18.3%	20.5%
Other Recurring Revenue	**484**	**(33)**	**451**	(15.0%)	(14.1%)	(13.4%)
Recurring revenue	**1,694**	**(102)**	**1,592**	5.1%	6.8%	8.5%

2 Segment information *continued*

	Year ended 30 September 2019				
	Statutory and Underlying as reported £m	Impact on foreign exchange £m	Underlying £m	Organic adjustments* £m	Organic £m
Recurring revenue by segment					
North America	574	–	574	(2)	572
Northern Europe	341	–	341	4	345
Central and Southern Europe	490	(3)	487	(39)	448
International	207	(23)	184	(81)	103
Recurring revenue	1,612	(26)	1,586	(118)	1,468
Other revenue by segment**					
North America	83	–	83	(14)	69
Northern Europe	65	–	65	(39)	26
Central and Southern Europe	118	(1)	117	(9)	108
International	58	(5)	53	(19)	34
Other revenue	324	(6)	318	(81)	237
Total revenue by segment					
North America	657	–	657	(16)	641
Northern Europe	406	–	406	(35)	371
Central and Southern Europe	608	(4)	604	(48)	556
International	265	(28)	237	(100)	137
Total revenue	1,936	(32)	1,904	(199)	1,705

	Year ended 30 September 2019				
	Statutory and Underlying as reported £m	Impact on foreign exchange £m	Underlying £m	Organic adjustments* £m	Organic £m
Total recurring revenue by type					
Software Subscription Revenue	1,043	(20)	1,023	(76)	947
Other Recurring Revenue	569	(6)	563	(42)	521
Recurring revenue	1,612	(26)	1,586	(118)	1,468

Notes:

* Adjustments relate to the disposal of Sage Pay and the Group's Brazilian business and assets held for sale in the current year (note 15.3) and the acquisition of Ocrex Limited and disposal of Sage Payroll Solutions in the prior year.

** Previously reported as Software and software-related services and Processing revenue categories.

2.2 Operating profit by segment

	Year ended 30 September 2020					Change		
	Statutory £m	**Underlying adjustments £m**	**Underlying £m**	**Organic adjustments £m**	**Organic £m**	Statutory	Underlying	Organic
Operating profit by segment								
North America	**127**	**28**	**155**	**–**	**155**	(0.4%)	17.1%	16.8%
Northern Europe	**266**	**(138)**	**128**	**(4)**	**124**	98.5%	(18.1%)	(12.6%)
Central and Southern Europe	**65**	**34**	**99**	**(8)**	**91**	(46.1%)	(22.2%)	(21.3%)
International	**(54)**	**83**	**29**	**(8)**	**21**	n/a	18.4%	35.5%
Total operating profit	**404**	**7**	**411**	**(20)**	**391**	5.8%	(6.7%)	(3.7%)

							Year ended 30 September 2019
	Statutory £m	Underlying adjustments £m	Underlying as reported £m	Impact of foreign exchange £m	Underlying £m	Organic adjustments £m	Organic £m
Operating profit by segment							
North America	128	5	133	(1)	132	–	132
Northern Europe	134	23	157	–	157	(15)	142
Central and Southern Europe	120	9	129	(1)	128	(12)	116
International	–	29	29	(5)	24	(8)	16
Total operating profit	382	66	448	(7)	441	(35)	406

The results by segment from continuing operations were as follows:

Year ended 30 September 2020	Note	**North America £m**	**Northern Europe £m**	**Central and Southern Europe £m**	**Total reportable segments £m**	**International £m**	**Group £m**
Revenue		**692**	**412**	**590**	**1,694**	**209**	**1,903**
Segment statutory operating profit		**127**	**266**	**65**	**458**	**(54)**	**404**
Finance income	3.5						**3**
Finance costs	3.5						**(34)**
Profit before income tax							**373**
Income tax expense	4						**(63)**
Profit for the year – continuing operations							**310**

Reconciliation of underlying operating profit to statutory operating profit:

	North America £m	**Northern Europe £m**	**Central and Southern Europe £m**	**Total reportable segments £m**	**International £m**	**Group £m**
Underlying operating profit	**155**	**128**	**99**	**382**	**29**	**411**
Amortisation of acquired intangible assets (note 3.6)	**(21)**	**(8)**	**(4)**	**(33)**	**–**	**(33)**
Other acquisition-related items (note 3.6)	**(7)**	**(7)**	**(4)**	**(18)**	**(2)**	**(20)**
Non-recurring items (note 3.6)	**–**	**153**	**(26)**	**127**	**(81)**	**46**
Statutory operating profit	**127**	**266**	**65**	**458**	**(54)**	**404**

The results by segment from continuing operations were as follows:

Year ended 30 September 2019	Note	North America £m	Northern Europe £m	Central and Southern Europe £m	Total reportable segments £m	International £m	Group £m
Revenue		657	406	608	1,671	265	1,936
Segment statutory operating profit		128	134	120	382	–	382
Finance income	3.5						8
Finance costs	3.5						(29)
Profit before income tax							361
Income tax expense	4						(95)
Profit for the year – continuing operations							266

2 Segment information *continued*

2.2 Operating profit by segment *continued*

Reconciliation of underlying operating profit to statutory operating profit:

	North America £m	Northern Europe £m	Central and Southern Europe £m	Total reportable segments £m	International £m	Group £m
Underlying operating profit as reported	133	157	129	419	29	448
Amortisation of acquired intangible assets (note 3.6)	(19)	(6)	(5)	(30)	(1)	(31)
Other acquisition-related items (note 3.6)	(9)	(5)	–	(14)	(7)	(21)
Non-recurring items (note 3.6)	23	(12)	(4)	7	(21)	(14)
Statutory operating profit	128	134	120	382	–	382

Impairment losses of £19m reported by the Group relate to Asia goodwill included within International in the results (2019: £nil).

2.3 Analysis by geographic location

Management considers 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	**2020 £m**	2019 £m
USA	**593**	561
UK	**383**	380
France	**273**	277
Other individually immaterial countries	**654**	718
	1,903	1,936

Management considers 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	**2020 £m**	2019 Restated* £m
USA	**1,369**	1,425
UK	**424**	371
France	**250**	237
Other individually immaterial countries	**304**	412
	2,347	2,445

Note:

* Restated for finalisation of the fair value of assets acquired and liabilities assumed in the acquisition of Ocrex Limited, completed in 2019 (see notes 1 and 15.1) and to present Intacct goodwill within the USA category (£495m).

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 explains the accounting applied to leases entered into by the Group as a lessee and analyses the amounts recognised for leases on the balance sheet and in the income statement. For 2019 (prior to the adoption of IFRS 16), this note analyses the future amounts payable under operating lease agreements, which the Group had entered into as at the year end. These commitments are not included as liabilities in the 2019 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

With effect from 1 October 2019, the Group reports revenue under two 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 over a contractual term, with the customer being unable to continue to benefit from the full functionality of the good or service without ongoing payments. Subscription revenue is recurring revenue earned from customers for the provision of a good or service over a contractual term. In the event that the customer stops paying, they lose the legal right to use the software and the Group has the ability to restrict the use of the product or service. Subscription revenue and maintenance and support revenue are usually recognised on a straight-line basis over the term of the contract as control is transferred to the customer (including non-specified upgrades, when included). An exception is revenue from term licences embedded within a subscription contract for software with significant standalone functionality which are expected to recur upon renewal of the subscription offering. Revenue for these term licences is recognised when control is transferred at inception of each subscription contract period.
Other revenue *Software and software-related services* • Perpetual software licences • Upgrades to perpetual licences • Professional services • Training • Hardware and stationery	Perpetual software licences with significant standalone functionality and specified upgrades revenue are recognised when the control relating to the licence has been transferred. 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.

Prior to 1 October 2019, the Group reported three revenue categories: Recurring revenue, Software and software-related services and Processing revenue. The aggregation of Software and software-related services and Processing revenue into the Other revenue category reflects the focus on recurring revenue and the divestment of certain processing businesses. There has been no change to the revenue recognition policy compared to the year ended 30 September 2019.

Identification of performance obligations

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

Typically, the products and services outlined in the categories of revenue section qualify as separate performance obligations and the portion of the contractual fee allocated to them is recognised separately. However, certain on-premise subscription contracts, which combine the delivery of on-premise software and maintenance and support services, require unbundling. Sage cloud native services usually do not require unbundling as the terms usually do not provide the customer with a right to terminate the hosting contract and take possession of the software.

When selling goods or services, in certain instances, 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. The Group applies judgement in determining whether such sign-up fees provide a material right to the customer that the customer would not receive without entering into that contract. In applying this judgement, the Group considers whether the options entitle the customer to a discount that exceeds the discount that would normally be granted for the respective goods or services if they were to be sold without the option. Where this is the case, the non-refundable contract sign-up fee is treated as a separate performance obligation.

3 Profit before income tax *continued*

3.1 Revenue *continued*

Determination of transaction price and standalone selling prices

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

The transaction price is allocated between the identified obligations according to the relative standalone selling prices (SSPs) of the obligations. The SSP of each obligation deliverable in the contract is determined according to the prices that the Group would obtain by selling the same goods and/or services included in the obligation to a similar customer on a standalone basis. See "Critical accounting estimates and judgements" in note 1 for details.

Timing of recognition

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

- Licences for standard on-premise software products are typically delivered by providing the customer with access to download the software. The licence period starts when such access is granted. Licence revenue is recognised at a point in time or over time depending on whether the Group delivers software with significant standalone functionality or software which is dependent on updates for ongoing functionality. The Group recognises revenue for these licences which have significant standalone functionality at the point in time when the customer has access to and control over the software. For licences which are dependent on updates for ongoing functionality, the Group recognises revenue based on time elapsed and thus rateably over the term of the contract. Typically, this includes our payroll and tax compliance software.
- Where the Group's performance obligation is the grant of a right to continuously access a cloud offering for a certain term, revenue is recognised based on time elapsed and thus rateably over the term.
- Maintenance and support revenue is typically recognised based on time elapsed and thus rateably over the term of the support arrangement. Under the standardised maintenance and support services, the Group's performance obligation is to stand ready to provide technical product support and unspecified updates, upgrades and enhancements on a when-and-if-available basis. The customers simultaneously receive and consume the benefits of these services.
- Professional services and training revenue are typically recognised over time. Where the Group stands ready to provide the service (such as access to learning content), revenue is recognised based on time elapsed and thus rateably over the service period. Consumption-based services (such as separately identifiable professional services and premium support services, messaging services, and classroom training services) are recognised over time as the services are utilised, typically following the percentage-of-completion method or rateably.
- Non-refundable contract sign-up fees that qualify as separate performance obligations are recognised as revenue over the anticipated period of benefit to the customer, which takes account of the likelihood of the customer renewing the contract.

Identification of contract with the customer

When the Group sells goods or services through a business partner, a key consideration is determining whether the business partner or the end user is Sage's customer. The key criteria in this determination is whether the business partner has taken control of the product. Considering the nature of Sage's subscription products and support services, this is usually assessed based on whether the business partner has responsibility for payment, has discretion to set prices, and takes on the risks and rewards of the product from Sage. See "Critical accounting estimates and judgements" in note 1 for details.

Principal versus agent considerations

When the Group has control of third-party goods or services prior to delivery to a customer, then the Group is the principal in the sale to the customer. As a principal, receipts from customers and payments to suppliers are reported on a gross basis in revenue and cost of sales. If the Group does not have control of third-party goods or services prior to transfer to a customer, then the Group is acting as an agent for the other party and revenue in respect of the relevant obligations is recognised net of any related payments to the supplier and reported revenue represents the margin earned by the Group. Whether the Group is considered to be the principal or an agent in the transaction depends on analysis by management of both the legal form and substance of the agreement between the Group and its supplier. This takes into account whether Sage bears the price, inventory and performance risks associated with the transaction.

Practical expedients

As the majority of contracts have a term of one year or less, the Group has applied the following practical expedients.

- The aggregate transaction price allocated to the unsatisfied or partially unsatisfied performance obligations at the end of the reporting period is not disclosed.
- Any financing component is not considered when determining the transaction price.

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	**2020 £m**	2019 £m
Staff costs		**928**	885
Depreciation of property, plant and equipment	7	**79**	34
Amortisation of intangible assets	6.2	**45**	44
Customer acquisition amortisation expense	8.1	**99**	76
Impairment of goodwill	3.6	**19**	–
Impairment of property, plant and equipment	7	**14**	3
Net gain on disposal of subsidiaries	3.6	**(141)**	(28)
Other operating lease rentals payable (applicable only for 2019 under IAS 17)		**–**	30
Other acquisition-related items	3.6	**20**	21

The Group incurred £252m (2019: £220m) of research and development expenditure in the year, of which £218m (2019: £194m) relates to total Group staff costs included above. See note 6.2 for the research and development accounting policy.

Depreciation of property, plant and equipment includes £33m of accelerated depreciation charge relating to the Group's UK flagship office move from North Park to Cobalt Business Park, announced on 1 July 2019 (2019: £12m). As a result, the Group has reviewed its estimates of the useful lives and residual values of the assets relating to the existing site. These assets are presented in the balance sheet within property, plant and equipment. The effect of these changes in estimates is to depreciate the remaining carrying amounts of these assets down to their revised residual values over the period July 2019 to the date at which the relocation is expected to be complete and the existing property vacated. Currently the relocation date is expected to be complete by 30 June 2021. This reflects a delay compared to the original estimate of 30 September 2020 as a result of Covid-19. This has resulted in a decrease of £15m in the amount of depreciation charged in the income statement in the year ended 30 September 2020 compared to the charge that would have been recognised if there was no delay and a corresponding increase in the depreciation charge for the year ending 30 September 2021. These accelerated depreciation charges are classified as non-recurring adjustments between underlying and statutory results as explained in note 3.6. Expenses incurred whilst preparing the new property for occupation, including related lease costs, are capitalised as leasehold improvement assets within property, plant and equipment. Expenses incurred during the period of inactivity while the project was delayed have not been capitalised.

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:

	2020 £m	2019 £m
Fees payable to the Group's auditor for the audit of the Company and the consolidated accounts	**2**	2
Fees payable to the Group's auditor for the audit of the Company's subsidiaries	**3**	3
Fees payable to the Group's auditor for audit-related assurance services*	**–**	–
Total audit and audit related services	**5**	5
Other non-audit services	**–**	–
Total fees	**5**	5

Note:

* Includes costs relating to half year review.

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 119.

3 Profit before income tax *continued*

3.3 Employees and Directors

Average monthly number of people employed (including Directors)	2020 number	2019 number
By segment:		
North America	**2,592**	2,551
Northern Europe	**3,279**	2,865
Central and Southern Europe	**4,407**	4,334
International	**2,228**	3,005
	12,506	12,755

Staff costs (including Directors on service contracts)	Note	2020 £m	2019 £m
Wages and salaries		**827**	788
Social security costs		**104**	104
Post-employment benefits	10	**22**	18
Share-based payments	14.2	**29**	32
		982	942

Staff costs include a total of £54m of capitalised commission costs which are amortised over the expected contract life including probable contract renewals (2019: £57m).

Key management compensation	2020 £m	2019 £m
Salaries and short-term employee benefits	**8**	9
Share-based payments	**4**	7
	12	16

Key management personnel are deemed to be members of the Group's Executive Committee and the Non-executive Directors as shown on pages 80 to 83. The key management figures given above include the Executive Directors of the Group.

3.4 Leases

Accounting policy

The Group's new IFRS 16 accounting policy is disclosed below. This policy has been applied with effect from 1 October 2019. Comparative information for 2019 has not been restated and is presented in accordance with the Group's previous policy. Differences between IFRS 16 and the policy applied to the 2019 comparatives and quantification of the impact of implementing the new standard are disclosed in note 17.

3.4 Leases

The Group as lessee

The Group recognises lease assets and lease liabilities on the balance sheet for most of its leases to account for the right to use leased items and the obligation to make future lease payments. Lease liabilities are measured at the present value of future lease payments over the lease term. The lease term is determined as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if the option is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if the option is reasonably certain not to be exercised. Lease payments normally include fixed payments (including in substance fixed payments), a deduction for any lease incentives receivable and variable lease payments that depend on an index or a rate. In the event that a lease includes an exercise price for a purchase option that is reasonably certain to be exercised, or a termination penalty that is reasonably certain to be incurred, these too are included in lease payments as are any amounts expected to be paid under any residual value guarantees. Variable lease payments that do not depend on an index or a rate are not included in the lease liability but are recognised as an expense when incurred.

Lease payments are discounted using the incremental borrowing rate applicable to the lease at the lease commencement date, as the rate implicit in the lease cannot normally be readily determined. Lease assets are recognised at the amount of the lease liability, adjusted where applicable for any lease payments made or lease incentives received before commencement of the lease, direct costs incurred at the commencement of the lease and estimated restoration costs to be incurred at the end of the lease. When IFRS 16 is applied for the first time, the standard permits certain departures from these policies as practical expedients. The practical expedients used by the Group on transition to IFRS 16 are explained in note 17.

Right-of-use assets are presented within property, plant and equipment and depreciated on a straight-line basis over the shorter of their useful life and the lease term. Their carrying amounts are measured at cost less accumulated depreciation and impairment losses. Lease liabilities are presented within current and non-current borrowings. Over the lease term, the carrying amounts of lease liabilities are increased to reflect interest on the liability and reduced by the amount of lease payments made. A lease liability is remeasured if there is a modification, a change in the lease term or a change in lease payments. The costs of these leases are recognised in the income statement split between the depreciation of the lease asset and the interest charge on the lease liability. Depreciation is presented within selling and administrative expenses and interest charges within finance costs.

This policy applies mainly to the Group's leases for properties and vehicles. For short-term leases with a lease term of 12 months or less and leases of low value items, the Group has elected to apply the exemptions available under the standard. For these leases, rentals payable are charged to the income statement on a straight-line basis as an operating expense presented within selling and administrative expenses. Where rent payments are prepaid or accrued, their balances are reported under prepayments and accruals respectively. The low value exemption has been applied to most of the Group's leases of IT and other office equipment.

The Group leases various office and warehouse properties and vehicles, plant and equipment under non-cancellable lease agreements. Leases of properties have a range of lease terms, up to a maximum of 15 years. Other leases are generally for lease terms of 3 or 4 years. Property leases include various contractual terms, most commonly variable lease payments and termination and extension options.

3 Profit before income tax *continued*

The carrying amounts of right-of-use assets and their movements during the year are presented in note 7.

The carrying amounts of lease liabilities and their movements during the year are below.

	Note	**2020 £m**
At 30 September 2019		**–**
Lease liabilities on transition to IFRS 16		**135**
Additions		**30**
Interest charge in the year		**4**
Payment of lease liabilities		**(42)**
Transfer to liabilities held for sale		**(9)**
Exchange movement		**(5)**
		113
Presented as		
Borrowings – current	12.4	**20**
Borrowings – non-current	12.4	**93**

The maturity analysis of lease liabilities is included in note 13.2.

Amounts recognised in profit and loss for leases are as follows:

	Note	**2020 £m**
Depreciation of right-of-use assets		**25**
Interest expense charge on lease liabilities	3.5	**4**
Lease expense from short-term leases and leases of low value assets (included in selling and administrative expenses)		**5**
		34

Total cash outflows for leases in the year, including interest payments and outflows related to short-term leases and leases of low value assets, was £47m.

At 30 September 2019, prior to the application of IFRS 16, the Group had the following future amounts payable under operating lease agreements accounted for under IAS 17.

Total future minimum lease payments under non-cancellable operating leases falling due for payment as follows:	2019 Property, vehicles, plant and equipment £m
Within one year	30
Later than one year and less than five years	76
After five years	56
	162

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.

	2020 £m	2019 £m
Finance income:		
Interest income on short-term deposits	**3**	6
Foreign currency movements on intercompany balances	**–**	2
Finance income	**3**	8
Finance costs:		
Finance costs on bank borrowings	**(7)**	(11)
Finance costs on US senior loan notes	**(16)**	(16)
Interest charge on lease liabilities	**(4)**	–
Foreign currency movements on intercompany balances	**(6)**	–
Amortisation of issue costs	**(1)**	(2)
Finance costs	**(34)**	(29)
Finance costs – net	**(31)**	(21)

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 of acquired intangible assets, 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 results, 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.

3 Profit before income tax *continued*

	Recurring 2020 £m	Non-recurring 2020 £m	Total 2020 £m	Recurring 2019 £m	Non-recurring 2019 £m	Total 2019 £m
M&A activity-related items						
Amortisation of acquired intangibles	**33**	**–**	**33**	31	–	31
Net gain on disposal of subsidiaries	**–**	**(141)**	**(141)**	–	(28)	(28)
Impairment of assets held for sale	**–**	**–**	**–**	–	14	14
Other M&A activity-related items	**20**	**–**	**20**	21	–	21
Other items						
Restructuring costs	**–**	**22**	**22**	–	–	–
Impairment of goodwill	**–**	**19**	**19**	–	–	–
Property restructuring costs	**–**	**21**	**21**	–	16	16
Office relocation	**–**	**33**	**33**	–	12	12
Total adjustments made to operating profit	**53**	**(46)**	**7**	52	14	66
Gain on foreign currency movements on intercompany balances	**6**	**–**	**6**	(2)	–	(2)
Total adjustments made to profit before income tax	**59**	**(46)**	**13**	50	14	64

Recurring items

Acquired intangibles are assets which have previously been recognised as part of business combinations or similar transactions. 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.

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, directly attributable integration costs and any required provision for future selling costs for assets held for sale. £4m (2019: £nil) of these costs have been paid in the year while the remainder is expected to be paid in subsequent financial years. Further details can be found in note 15.3.

Foreign currency movements on intercompany balances of £6m (2019: credit of £2m) occur 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, predominantly the movement in Euro and US Dollar compared to sterling.

Non-recurring items

Net credit in respect of non-recurring items amounted to £46m (2019: charges of £14m).

Following challenging current trading and economic conditions in Asia, an impairment of goodwill by £19m (2019: £nil) relating to the Asia group of CGUs has been recognised. See note 6.1 for further details.

Restructuring costs of £22m (2019: £nil) are in relation to the changes in the Professional Services division across a number of geographic regions announced during the year reflecting the continued de-prioritisation of low margin professional services. £1m (2019: £nil) of these costs have been paid in the year while the remainder is expected to be paid in the subsequent financial year.

Property restructuring costs of £21m (2019: £16m) relate to the reorganisation of the Group's properties and consist of net lease exit costs, £2m of which was paid in cash, following consolidation of office space and £14m impairment of leasehold and other related assets that are no longer in use. This is one programme that has bridged two financial years therefore the Group has continued to present these costs as non-recurring.

Office relocation costs relate to the incremental depreciation charge resulting from accelerated depreciation following the announced UK office move. Further details can be found in note 3.2.

The net gain on disposal of subsidiaries relates to the disposal of Sage Pay (gain: £193m) and the Brazilian business (loss: £52m). Further details can be found in note 15.3.

In the prior year, the £28m net gain on disposal of subsidiaries related to the sale of Sage Payroll Solutions and the Group's South African payments business.

The prior year impairment of assets held for sale related to the Brazilian business which was subsequently disposed of in the current year.

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 11).

Analysis of expense in the year	Note	2020 £m	2019 £m
Current income tax			
• Current tax on profit for the year		**91**	91
• Adjustment in respect of prior years		**(9)**	3
Current income tax		**82**	94
Deferred tax			
Origination and reversal of temporary differences		**(21)**	5
Adjustment in respect of prior years		**2**	(4)
Deferred tax	11	**(19)**	1
The current year tax expense is split into the following:			
Underlying tax expense		**87**	116
Tax credit on adjustments between the underlying and statutory operating profit		**(24)**	(21)
Income tax expense reported in income statement		**63**	95

The tax on items credited to other comprehensive income was insignificant in both 2020 and 2019. Deferred tax charge relating to share options and IFRS 16 of £2m has been recognised directly in equity (2019: £4m relating to share options and IFRS 15 and 9).

4 Income tax expense *continued*

The effective tax rate for the year is lower (2019: higher) than the rate of UK corporation tax applicable to the Group of 19% (2019: 19%). The differences are explained below:

	2020 £m	2019 £m
Profit before income tax	**373**	361
Statutory profit before income tax multiplied by the rate of UK corporation tax of 19% (2019: 19%)	**71**	69
Tax effects of:		
Adjustments in respect of prior years	**(7)**	(1)
Foreign tax rates in excess of UK rate of tax	**16**	20
US tax reform	**1**	1
Non-deductible expenses and permanent items	**7**	6
Other corporate taxes (withholding tax, business tax)	**11**	7
Tax incentive claims	**(13)**	(7)
Non-taxable gain on disposal	**(23)**	–
At the effective income tax rate of 17% (2019: 26%)	**63**	95
Income tax expense reported in the income statement	**63**	95

The effective tax rate on statutory profit before tax was 17% (2019: 26%), whilst the effective tax rate on underlying profit before tax on continuing operations was 23% (2019: 27%). The statutory effective tax rate is lower than the underlying effective tax rate mainly due to non-taxable accounting net gains on our FY20 disposals, offset by non-tax-deductible charges relating to the impairment of goodwill in respect of the Asia business and accelerated depreciation relating to the relocation of our North Park office in Newcastle. The underlying 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 software, and research and development activities which are government tax incentives in a number of operating territories. The underlying effective tax rate was reduced in FY20 principally as a result of changes in the French patent box regime and non-recurring adjustments in some of our 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 at 30 September 2020 (2019: £27m).

The tax provision is sensitive to a number of issues which are not always within the control of the Group and are 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.

Management has applied the principles set out in IFRIC 23 in determining the measurement of uncertain tax positions. In making these 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 the relevant tax environment.

When making this assessment, we utilise our specialist in-house tax knowledge and experience of similar situations. These judgements also, where appropriate, take into consideration specialist tax advice provided by third-party advisors.

EU State Aid

The Group continues to monitor developments following the EU Commission's decision published on 25 April 2019 in respect of its State Aid investigation into the UK's Controlled Foreign Company regime. The EU Commission concluded that the UK law did not comply with EU State Aid rules in certain circumstances. The UK Government has appealed to the European Court seeking annulment of the EU Commission's decision. The Group, in line with a number of UK corporates, has made a similar appeal.

HMRC issued guidance on this issue in December 2019 and provided some key factors that should be considered in the quantification of the State Aid amount. The Group has made an assessment of the potential State Aid amount in accordance with HMRC's guidance. The Group has submitted our analysis to HMRC but remains of the view that State Aid is not applicable.

Based on current advice, we consider that no provision is required at this time. However, we have estimated our maximum potential liability to be approximately £35m. The assessment of uncertain tax positions is subjective and significant management judgement is required. This judgement is based on current interpretation of legislation, management experience and professional advice.

5 Earnings per share

This note sets out 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 2020**	Underlying as reported* 2019	Underlying 2019	**Statutory 2020**	Statutory 2019
Earnings attributable to owners of the parent (£m)					
Profit for the year	**299**	309	303	**310**	266
Number of shares (millions)					
Weighted average number of shares	**1,091**	1,086	1,086	**1,091**	1,086
Dilutive effects of shares	**9**	9	9	**9**	9
	1,100	1,095	1,095	**1,100**	1,095
Earnings per share attributable to owners of the parent – continuing operations					
Basic earnings per share (pence)	**27.43**	28.40	27.88	**28.38**	24.49
Diluted earnings per share (pence)	**27.21**	28.17	27.65	**28.15**	24.29

Note:

* Underlying as reported is at 2019 reported exchange rates.

5 Earnings per share *continued*

Reconciliation of earnings	**2020 £m**	2019 £m
Earnings – statutory profit for the year attributable to owners of the parent	**310**	266
Adjustments:		
• Amortisation of acquired intangible assets	**33**	31
• Net gain on disposal of subsidiaries	**(141)**	(28)
• Foreign currency movements on intercompany balances	**6**	(2)
• Other M&A activity-related items	**20**	21
• Impairment of assets held for sale	**–**	14
• Impairment of goodwill	**19**	–
• Restructuring costs	**22**	–
• Property restructuring costs	**21**	16
• Office relocation	**33**	12
• Taxation on adjustments between underlying and statutory profit before tax	**(24)**	(21)
Net adjustments	**(11)**	43
Earnings – underlying profit for the year (before exchange movement)	**299**	309
Exchange movement	**–**	(8)
Taxation on exchange movement	**–**	2
Net exchange movement	**–**	(6)
Earnings – underlying profit for the year (after exchange movement) attributable to owners of the parent	**299**	303

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	**2020 £m**	2019 Restated* £m
Cost at 1 October		**2,083**	2,100
• Additions	15.1	**–**	26
• Disposals		**–**	3
• Transfer to held for sale	15.3	**(66)**	(119)
• Exchange movement		**(55)**	73
At 30 September		**1,962**	2,083
Impairment at 1 October		**–**	92
• Impairment in the year		**19**	–
• Transfer to held for sale	15.3	**(19)**	(93)
• Exchange movement		**–**	1
At 30 September		**–**	–
Net book amount at 30 September		**1,962**	2,083

Note:

* 2019 restated for finalisation of the fair value of assets acquired and liabilities assumed in the acquisition of Ocrex Limited in 2019 (see notes 1 and 15.1).

6 Intangible assets *continued*

6.1 Goodwill *continued*

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:

	2020 £m	2019 Restated* £m
North America		
• Sage Business Solutions Division (SBS)	**733**	769
• Sage Intacct	**471**	494
UK & Ireland	**295**	295
France	**229**	224
Iberia	**137**	134
Central Europe	**69**	87
Africa and the Middle East	**26**	31
Australia	**2**	28
Asia	**–**	20
	1,962	2,083

Note:

* 2019 restated for finalisation of the fair value of assets acquired and liabilities assumed in the acquisition of Ocrex Limited in 2019 (see notes 1 and 15.1) and allocation of previously unallocated goodwill (£41m) to the UK & Ireland (£9m) and Sage Business Solutions Division (£17m) CGUs, with the remainder allocated to other intangible assets and deferred tax liabilities (see note 15.1).

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 as at 30 June 2020. In all cases, the 2021 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 one year for the Sage Intacct CGU to reflect the planned growth following its acquisition in 2017. Beyond the three-year Group plan period and additional one-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 three (2019: five) years. The average medium-term revenue growth rate applied to each CGU's cash flow projections for plan periods of three or four years are calculated using the specific rates used in the preparation of those plans and reflect rates applicable to 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	2020	2019
• Average medium-term revenue growth rates*	**3%-25%**	2%-17%
• Long-term growth rates to net operating cash flows	**1%-3%**	1%-3%

Note:

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

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:

2020	**Local discount rate (post-tax)**	**Approximate local discount rate (pre-tax) equivalent**	**Long-term growth rate**	**Average medium-term revenue growth rate***
• UKI	**7.7%**	**9.2%**	**2.1%**	**6.7%**
• France	**7.4%**	**10.8%**	**2.0%**	**2.7%**
• North America – SBS	**7.7%**	**9.6%**	**1.9%**	**4.4%**
• North America – Sage Intacct	**10.2%**	**11.3%**	**1.9%**	**24.7%**

2019	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%	5.2%
• France	7.7%	9.6%	2.0%	3.9%
• North America – SBS	9.0%	11.6%	1.9%	4.8%
• North America – Sage Intacct	9.0%	10.7%	1.9%	16.8%

Note:

* Average medium-term revenue growth rate is calculated on value in use projections that exclude intercompany revenue. Current year average medium-term revenue growth is based on three (2019: five) year compound annual revenue growth.

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 2020 and the risks specific to the CGU or group of CGUs. Use of a post-tax discount rate is consistent with the use of post-tax cash flows in the calculations and produces a result that is not materially different from applying the equivalent pre-tax rate to pre-tax cash flows. For comparison, the equivalent pre-tax rate has been estimated by grossing up the post-tax rate and is considered to provide a reasonable approximation of the rate that would have been used if calculations were on a pre-tax basis considering there are no significant timing differences. The post-tax discount rates applied to CGUs or group of CGUs were in the range of 7.0% (2019: 7.2%) to 15.5% (2019: 15.6%), 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 and Iberia CGUs management concluded that no reasonably possible change in any of the key assumptions would result in the carrying value of the CGU or group of CGUs to exceed its recoverable amount.

For the Intacct CGU, a reasonably possible change of a 2% increase in the discount rate combined with a decrease in the average medium-term revenue growth rate by 5% p.a. for the next three years would reduce the value in use by £249m down to its carrying value. The Group has concluded that no reasonably possible change in the long-term growth rate would reduce the recoverable amount to below its carrying value, even considering a reasonably possible decrease in the average medium-term revenue growth rate.

For the Iberia CGU, a reasonably possible change in the average medium-term revenue growth rate by 5% p.a. for the next three years would reduce the value in use by £35m 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, even considering a reasonably possible decrease in the average medium-term revenue growth rate.

Impairment charge

The Group recognised an impairment charge in the year of £19m (2019: £nil). This relates to the Asia group of CGUs. Following challenging trading and economic conditions in Asia in the first half of the year, management reassessed the expected future business performance relating to the Asia group of CGUs. The revised projected cash flows were lower than previously determined and this led to the impairment charge, which was equal to the total value of goodwill in Asia. The Group performed its annual test for impairment for all other CGUs as at 30 June 2020. The recoverable amount exceeded the carrying value for each CGU or group of CGUs, accordingly no further impairment charge has been recognised in the year.

6 Intangible assets *continued*

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	Customer relationships	• 4 to 15 years
Technology/In-process R&D ("IPR&D")	• 3 to 8 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.

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 2019 restated*	**38**	**192**	**4**	**146**	**178**	**558**
• Additions	**–**	**6**	**–**	**13**	**–**	**19**
• Disposals	**–**	**–**	**–**	**(1)**	**–**	**(1)**
• Transfer to held for sale	**(4)**	**(7)**	**–**	**(1)**	**(3)**	**(15)**
• Exchange movement	**–**	**(4)**	**–**	**(3)**	**(4)**	**(11)**
At 30 September 2020	**34**	**187**	**4**	**154**	**171**	**550**
Accumulated amortisation at 1 October 2019	**34**	**102**	**4**	**98**	**75**	**313**
• Charge for the year	**1**	**18**	**–**	**12**	**14**	**45**
• Disposals	**–**	**–**	**–**	**(1)**	**–**	**(1)**
• Transfer to held for sale	**(4)**	**(7)**	**–**	**(1)**	**(3)**	**(15)**
• Exchange movement	**–**	**–**	**–**	**(3)**	**(1)**	**(4)**
At 30 September 2020	**31**	**113**	**4**	**105**	**85**	**338**
Net book amount at 30 September 2020	**3**	**74**	**–**	**49**	**86**	**212**

	Brands £m	Technology £m	Internal IPR&D £m	Computer software £m	Customer relationships £m	Total £m
Cost at 1 October 2018	41	187	4	135	183	550
• Additions	–	4	–	11	–	15
• Acquisitions*	1	10	–	–	6	17
• Disposals	–	–	–	(1)	(8)	(9)
• Transfer to held for sale	(5)	(14)	–	(4)	(10)	(33)
• Exchange movement	1	5	–	5	7	18
At 30 September 2019 restated*	38	192	4	146	178	558
Accumulated amortisation at 1 October 2018	35	99	4	85	67	290
• Charge for the year	2	15	–	13	14	44
• Disposals	–	–	–	(1)	(3)	(4)
• Transfer to held for sale	(4)	(14)	–	(3)	(6)	(27)
• Exchange movement	1	2	–	4	3	10
At 30 September 2019 restated*	34	102	4	98	75	313
Net book amount at 30 September 2019 restated*	4	90	–	48	103	245

Note:

* 2019 restated for finalisation of the fair value of assets acquired and liabilities assumed in the acquisition of Ocrex Limited in 2019 (see notes 1 and 15.1).

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. Following the application of IFRS 16 on 1 October 2019, property, plant and equipment includes the right-of-use assets recognised for leases in which the Group is the lessee.

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	• Up to 50 years
Long leasehold buildings and improvements	• Shorter of lease term and useful life
Plant and equipment	• 2 to 7 years
Motor vehicles	• 4 years
Office equipment	• 2 to 7 years
Right-of-use lease assets	• Shorter of lease term and useful life

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.

Further information on the policy applied to right-of-use lease assets is included in note 3.4.

7 Property, plant and equipment *continued*

	Land and buildings £m	Plant and equipment £m	Motor vehicles and office equipment £m	Right-of-use assets: Property £m	Right-of-use assets: Vehicles £m	Right-of-use assets: Total £m	Total £m
Cost at 1 October 2019	**92**	**137**	**59**	**–**	**–**	**–**	**288**
• Adjustment on initial application of IFRS 16	**–**	**–**	**–**	**110**	**3**	**113**	**113**
• Additions	**–**	**24**	**3**	**26**	**4**	**30**	**57**
• Disposals	**–**	**(31)**	**(6)**	**(10)**	**–**	**(10)**	**(47)**
• Transfer to held for sale	**(4)**	**(9)**	**(5)**	**(10)**	**–**	**(10)**	**(28)**
• Exchange movement	**(1)**	**(4)**	**(1)**	**(2)**	**–**	**(2)**	**(8)**
At 30 September 2020	**87**	**117**	**50**	**114**	**7**	**121**	**375**
Accumulated depreciation at 1 October 2019	**31**	**96**	**44**	**–**	**–**	**–**	**171**
• Charge for the year	**34**	**16**	**4**	**22**	**3**	**25**	**79**
• Impairment	**–**	**2**	**1**	**11**	**–**	**11**	**14**
• Disposals	**–**	**(31)**	**(6)**	**(8)**	**–**	**(8)**	**(45)**
• Transfer to held for sale	**(4)**	**(5)**	**(3)**	**(2)**	**–**	**(2)**	**(14)**
• Exchange movement	**–**	**(2)**	**–**	**(1)**	**–**	**(1)**	**(3)**
At 30 September 2020	**61**	**76**	**40**	**22**	**3**	**25**	**202**
Net book amount at 30 September 2020	**26**	**41**	**10**	**92**	**4**	**96**	**173**

	Land and buildings £m	Plant and equipment £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 October 2018	92	130	60	282
• Additions	–	25	2	27
• Disposals	–	(4)	(3)	(7)
• Disposal of subsidiaries	–	(2)	–	(2)
• Transfer to held for sale	–	(14)	(2)	(16)
• Exchange movement	–	2	2	4
At 30 September 2019	92	137	59	288
Accumulated depreciation at 1 October 2018	18	94	41	153
• Charge for the year	13	16	5	34
• Impairment	–	2	1	3
• Disposals	–	(4)	(3)	(7)
• Disposal of subsidiaries	–	(2)	–	(2)
• Transfer to held for sale	–	(12)	(1)	(13)
• Exchange movement	–	2	1	3
At 30 September 2019	31	96	44	171
Net book amount at 30 September 2019	61	41	15	117

All depreciation charges in the years presented have been charged through selling and administrative expenses. Of these depreciation charges, £33m (2019: £12m) has been classified as a non-recurring adjustment, see note 3.6.

All impairment charges in the years presented have been charged through selling and administrative expenses, as well as being classified as a non-recurring adjustment within property restructuring costs, see note 3.6.

8 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 trade and other receivables, trade and other payables and deferred income.

Trade and other receivables are made up of amounts owed to the Group by customers, amounts that we pay to our suppliers in advance and unamortised incremental costs to acquire a contract. Trade receivables are shown net of an allowance for expected credit losses. 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 13.6.

8.1 Trade and other receivables

Accounting policy

Trade receivables and contract assets

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

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

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

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

Incremental costs of obtaining customer contracts

The incremental costs of obtaining customer contracts are capitalised under IFRS 15. Contract acquisition costs primarily consist of sales commissions earned by the Group's sales force and business partners.

Judgement is required in determining the amounts to be capitalised, particularly where the commissions are based on cumulative targets. The Group capitalises such cumulative target commissions for all customer contracts that count towards the cumulative target but only if nothing other than obtaining customer contracts can contribute to achieving the cumulative target.

The capitalised assets are amortised over the period during which the related revenue is recognised, which may extend beyond the initial contract term where the Group expects to benefit from future renewals as a result of incurring the costs. Typically, either the Group does not pay sales commissions for customer contract renewals or such commissions are not commensurate with the commissions paid for new contracts. Consequently, the Group amortises sales commissions paid for new customer contracts on a straight-line basis over the expected contract life including probable contract renewals. Judgement is required in estimating these contract lives. In exercising this judgement, the Group considers respective renewal history adjusted for indications that the renewal history is not fully indicative of future renewals.

The amortisation periods range from one year to ten years depending on the type of commission arrangement. Amortisation of the capitalised costs of obtaining customer contracts is reported within selling and administrative expenses.

Operating assets and liabilities *continued*

8 Working capital *continued*

8.1 Trade and other receivables *continued*

Non-current:	2020 £m	2019 £m
Customer acquisition costs	**79**	65
Other receivables	**5**	4
Prepayments	**2**	4
	86	73

Current:	2020 £m	2019 £m
Trade receivables	**239**	280
Less: allowance for expected credit losses	**(37)**	(23)
Trade receivables – net	**202**	257
Other receivables	**18**	15
Prepayments	**48**	55
Customer acquisition costs	**34**	37
	302	364

The Group has incurred £119m (2019: £111m) to obtain customer contracts and an amortisation expense of £99m (2019: £76m) was recognised in operating profit during the year. There were no material contract assets.

Movements on the Group allowance for expected credit losses of trade receivables were as follows:	2020 £m	2019 £m
At 1 October	**23**	20
Impact of adoption of IFRS 9	**–**	6
Increase in allowance for expected credit losses	**28**	7
Receivables written off during the year as uncollectable	**(10)**	(5)
Unused amounts reversed	**(1)**	(3)
Transfer to held for sale	**(2)**	(1)
Exchange movement	**(1)**	(1)
At 30 September	**37**	23

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's businesses implement policies, procedures and controls to manage customer credit risk. Outstanding balances are regularly monitored and reviewed to identify any change in risk profile. The Group recognises a loss allowance against trade receivables using the simplified approach under IFRS 9. The amount of the allowance reflects the lifetime expected credit losses measured using historical payment default rates determined for each geographical market in which the Group operates. The historical default rates are adjusted where necessary if they do not reflect the level of future expected credit losses, for example because of changes in the local economy or other commercial considerations. The allowance for expected credit losses is calculated using a provision matrix. The amount of the allowance increases as outstanding balances age. A customer balance is written off when it is considered that there is no reasonable expectation that the amount will be collected and legal enforcement activities have ceased.

An analysis of the gross carrying amount of trade receivables showing credit risk exposure by age of the outstanding balance is as follows:

Trade receivables at 30 September 2020	Not yet due £m	1-30 days overdue £m	31-60 days overdue £m	61-90 days overdue £m	91+ days overdue £m	Total £m
Expected credit loss rate	**8%**	**10%**	**34%**	**75%**	**85%**	**–**
Estimated total gross carrying amount at default	**186**	**27**	**6**	**5**	**15**	**239**
Expected credit loss	**(15)**	**(3)**	**(2)**	**(4)**	**(13)**	**(37)**

Trade receivables at 30 September 2019	Not yet due £m	1-30 days overdue £m	31-60 days overdue £m	61-90 days overdue £m	91+ days overdue £m	Total £m
Expected credit loss rate	2%	2%	17%	47%	77%	–
Estimated total gross carrying amount at default	203	39	10	12	16	280
Expected credit loss	(3)	(1)	(1)	(6)	(12)	(23)

Included in selling and administrative expenses in the income statement is £26m (2019: £17m) in relation to receivables credit losses. See note 1 in relation to the impact on trade receivables of the Covid-19 pandemic.

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.

8.2 Trade and other payables

Accounting policy

Trade payables and other 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:	2020 £m	2019 £m
Trade payables	**25**	16
Other tax and social security payable	**35**	37
Other payables	**34**	38
Accruals	**203**	200
	297	291

8.3 Deferred income

Accounting policy

If amounts received or receivable from a customer exceed revenue recognised for a contract, a contract liability is recognised. The Group uses the term "deferred income" for a contract liability. Contract liabilities primarily reflect invoices due or payments received in advance of revenue recognition. Deferred income is unwound as related performance obligations are satisfied.

In all material respects current deferred income at 1 October 2019 was recognised as revenue during the year. Other than business-as-usual movements, and deferred income transferred to held for sale (see note 15.3), there were no significant changes in contract liability balances during the year.

9 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 contracts 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 2019	**1**	**7**	**16**	**2**	**26**
• Adjustment on initial application of IFRS 16	**–**	**–**	**(5)**	**–**	**(5)**
• Additional provision in the year	**22**	**10**	**5**	**2**	**39**
• Provision utilised in the year	**(1)**	**(3)**	**(4)**	**(1)**	**(9)**
• Exchange movement	**1**	**–**	**–**	**–**	**1**
• Transfer to held for sale	**–**	**–**	**(1)**	**(1)**	**(2)**
At 30 September 2020	**23**	**14**	**11**	**2**	**50**

	Restructuring £m	Legal £m	Building £m	Other £m	Total £m
Maturity profile					
< 1 year	**9**	**5**	**3**	**2**	**19**
1 – 2 years	**14**	**9**	**5**	**–**	**28**
2 – 5 years	**–**	**–**	**1**	**–**	**1**
> 5 years	**–**	**–**	**2**	**–**	**2**
At 30 September 2020	**23**	**14**	**11**	**2**	**50**

Restructuring provisions are for the estimated costs of Group restructuring activities and relate mainly to employee severance which remains unpaid at the balance sheet date. These provisions will be utilised as obligations are settled which is generally expected to be within one year. This includes the non-recurring restructuring costs which remain unpaid at the balance sheet date (see note 3.6).

Legal provisions have been made in relation to ongoing disputes with third parties and other claims against the Group. The ageing of legal provisions is assessed regularly, based upon internal and external legal advice, as required.

Building provisions relate to dilapidation charges and property-related contracts that have become onerous. The timing of the cash flows associated with building provisions is dependent on the timing of lease agreement termination. This includes the non-recurring property restructuring costs which remain unpaid at the balance sheet date (see note 3.6).

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.

10 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. At 30 September 2020, the defined benefit scheme in Switzerland was transferred to held for sale.

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	**2020 £m**	2019 £m
Defined contribution schemes		**20**	16
Defined benefit plans		**2**	2
	3.3	**22**	18

10 Post-employment benefits *continued*

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 2020.

Weighted average principal assumptions made by the actuaries	**2020 %**	2019 %
Rate of increase in pensionable salaries	**2.0**	2.0
Discount rate	**0.4**	0.3
Inflation assumption	**2.0**	2.0

Mortality rate assumptions made by the actuaries	**2020 Years**	2019 Years
Average life expectancy for 65-year-old male	**21**	21
Average life expectancy for 65-year-old female	**23**	23
Average life expectancy for 45-year-old male	**40**	40
Average life expectancy for 45-year-old female	**43**	43

Amounts recognised in the balance sheet	**2020 £m**	2019 £m
Present value of funded obligations	**(23)**	(48)
Fair value of plan assets	**–**	23
Net liability recognised in the balance sheet	**(23)**	(25)

Major categories of plan assets as a percentage of total plan assets	**2020 £m**	**2020 %**	2019 £m	2019 %
Bonds (quoted)	**7**	**29**	8	35
Equities (quoted)	**7**	**29**	6	26
Properties	**8**	**34**	6	26
Other (unquoted)	**2**	**8**	3	13
Transfer to held for sale	**(24)**	**(100)**	–	–
	–	**–**	23	100

Expected contributions to post-employment benefit plans for the year ending 30 September 2021 are £1m (2019: expected contributions for the year ending 30 September 2020: £1m).

Amounts recognised in the income statement	**2020 £m**	2019 £m
Net interest costs on obligation	**–**	–
Current service cost	**(3)**	(2)
Others (Curtailments/Plan amendments)	**1**	–
Total included within staff costs – all within selling and administrative expenses	**(2)**	(2)

Changes in the present value of the defined benefit obligation	**2020 £m**	2019 £m
At 1 October	**(48)**	(41)
Exchange movement	**(1)**	(1)
Service cost	**(3)**	(2)
Plan participant contributions	**(1)**	(1)
Interest cost	**–**	(1)
Benefits paid	**1**	2
Curtailments/Plan amendments	**1**	–
Actuarial loss – financial assumptions	**–**	(3)
Actuarial loss – experience	**–**	(1)
Transfer to held for sale	**28**	–
At 30 September	**(23)**	(48)

Changes in the fair value of plan assets	2020 £m	2019 £m
At 1 October	**23**	19
Exchange movement	**1**	1
Employer's contributions	**1**	1
Plan participant contributions	**1**	1
Benefits paid	**(2)**	(2)
Actuarial gain on plan assets	**–**	3
Transfer to held for sale	**(24)**	–
At 30 September	**–**	23

Analysis of the movement in the balance sheet liability	2020 £m	2019 £m
At 1 October	**(25)**	(22)
Total expense as recognised in the income statement	**(2)**	(3)
Benefits paid	**(1)**	–
Contributions paid	**1**	1
Actuarial loss	**–**	(1)
Transfer to held for sale	**4**	–
At 30 September	**(23)**	(25)

Sensitivity analysis on significant actuarial assumptions		2020 £m	2019 £m
Discount rate applied to scheme obligations	+/- 0.5% pa	**3**	3
Salary increases	+/- 0.5% pa	**2**	2

11 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.

Operating assets and liabilities *continued*

11 Deferred income tax *continued*

The movement on the deferred tax account is as shown below:	2020 £m	2019 Restated* £m
At 1 October	**5**	26
Adjustment on initial application of IFRS 16	**2**	–
Income statement credit/(charge)	**19**	(1)
Acquisition of subsidiaries	**–**	(2)
Transfer to held for sale	**(5)**	(13)
Other balance sheet reclassification	**–**	–
Exchange movement	**–**	(1)
Other comprehensive income/equity movement in deferred tax	**–**	(4)
At 30 September	**21**	5

The net deferred tax asset at the end of the year is analysed below:	2020 £m	2019 Restated* £m
Deferred tax assets	**35**	31
Deferred tax liabilities	**(14)**	(26)
Net deferred tax asset	**21**	5

Note:

* 2019 restated for finalisation of the fair value of assets acquired and liabilities assumed in the acquisition of Ocrex Limited, completed in 2019 (see notes 1 and 15.1).

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 have been appropriately recognised where it is probable the temporary difference will reverse in the foreseeable future. The taxable temporary differences associated with investments in the Group's subsidiaries for which a deferred tax liability has not been recognised are not considered material. The Group has undistributed earnings of £301m at 30 September 2020.

At 30 September 2020, following the decision to sell certain of our Australian, Polish, Swiss, Singaporean and Malaysian entities, we transferred £5m of deferred tax assets to held for sale. At 30 September 2019, following the decision to sell our Brazilian entities, we transferred £13m of tax losses to held for sale.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as required by IAS 12 "Income Taxes") during the year are shown 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	Other intangible assets (excluding goodwill) £m	Tax losses £m	Other £m	Total £m
At 30 September 2018	(34)	24	36	26
Income statement (debit)/credit	(1)	(5)	5	(1)
Acquisition/disposal	(2)	–	–	(2)
Transfer to held for sale	2	(10)	(5)	(13)
Other comprehensive income/equity movement in deferred tax	–	–	(4)	(4)
Exchange movement	(2)	1	–	(1)
At 30 September 2019 restated*	**(37)**	**10**	**32**	**5**
Income statement (debit)/credit	**7**	**(3)**	**15**	**19**
Adjustment on initial application of IFRS 16	**–**	**–**	**2**	**2**
Acquisition/disposal	**–**	**–**	**–**	**–**
Transfer to held for sale	**–**	**–**	**(5)**	**(5)**
Other comprehensive income/equity movement in deferred tax	**–**	**–**	**–**	**–**
Exchange movement	**1**	**–**	**(1)**	**–**
At 30 September 2020	**(29)**	**7**	**43**	**21**

Deferred tax assets and liabilities categorised as "other" in the above table includes various balances in relation to the following items:

	2020 £m	2019 Restated* £m
Accounting provisions/accruals	**27**	22
Goodwill amortisation	**(21)**	(21)
Deferred revenue	**18**	17
Stock options	**9**	7
Interest carried forward	**6**	3
R&D capitalisation	**2**	2
Lease liability	**16**	–
Right-of-use lease assets	**(15)**	–
Other amounts	**1**	2
	43	32

Note:

* 2019 restated for finalisation of the fair value of assets acquired and liabilities assumed in the acquisition of Ocrex Limited, completed in 2019 (see notes 1 and 15.1).

The Company has unrecognised carried forward losses of £73m (2019: £62m) principally in the UK and the US, available to reduce certain future taxable profits. Deferred tax assets have not been recognised in respect of these losses due to uncertainty regarding whether suitable profits will arise in future periods against which the deferred tax asset would reverse.

Net debt and capital structure

12 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. Borrowings also include lease liabilities.

12.1 Cash flow generated from continuing operations

Reconciliation of profit for the year to cash generated from continuing operations	2020 £m	2019 £m
Profit for the year	310	266
Adjustments for:		
• Income tax	63	95
• Finance income	(3)	(8)
• Finance costs	34	29
• Amortisation and impairment of intangible assets	45	44
• Depreciation and impairment of property, plant and equipment	93	37
• Impairment of goodwill	19	–
• Impairment and cost of disposal of assets held for sale	–	19
• R&D tax credits	(2)	(2)
• Equity-settled share-based transactions	29	32
• Net gain on disposal of subsidiaries	(141)	(28)
Changes in working capital (excluding effects of acquisitions and disposals of subsidiaries):		
• Decrease in trade and other receivables	26	18
• Increase in trade and other payables and provisions	44	46
• Increase in deferred income	10	38
Cash generated from continuing operations	527	586

12.2 Net debt

Reconciliation of net cash flow to movement in net debt	2020 £m	2019 £m
Increase in cash in the year (pre-exchange movements)	510	158
Cash outflow from movement in loans, lease liabilities and cash held on behalf of customers	(96)	142
Change in net debt resulting from cash flows	414	300
Impact of adoption of IFRS 16	(136)	–
Acquisitions	–	1
Disposals	(12)	–
Other non-cash movements	(30)	(2)
Exchange movement	6	(24)
Movement in net debt in the year	242	275
Net debt at 1 October	(393)	(668)
Net debt at 30 September	(151)	(393)

Analysis of change in net debt (inclusive of leases)	At 1 October 2019 £m	**Impact of adoption of IFRS 16 £m**	**Cash flow £m**	**Reclassification as held for sale**	**Disposal of subsidiary £m**	**Non-cash movements £m**	**Exchange movement £m**	**At 30 September 2020 £m**
Cash and cash equivalents	371	**–**	**510**	**(17)**	**(12)**	**–**	**(21)**	**831**
Cash amounts included in held for sale	1	**–**	**–**	**17**	**(1)**	**–**	**–**	**17**
Cash, cash equivalents and bank overdrafts including cash held for sale	372	**–**	**510**	**–**	**(13)**	**–**	**(21)**	**848**
Liabilities arising from financing activities								
Loans due within one year	(122)	**–**	**122**	**–**	**–**	**–**	**–**	**–**
Loans due after more than one year	(643)	**–**	**(256)**	**–**	**–**	**–**	**22**	**(877)**
Lease liabilities due within one year	–	**(29)**	**38**	**2**	**–**	**(31)**	**–**	**(20)**
Lease liabilities after more than one year	–	**(106)**	**–**	**7**	**–**	**1**	**5**	**(93)**
Lease liabilities included in held for sale	–	**(1)**	**–**	**(9)**	**1**	**–**	**–**	**(9)**
	(765)	**(136)**	**(96)**	**–**	**1**	**(30)**	**27**	**(999)**
Total	(393)	**(136)**	**414**	**–**	**(12)**	**(30)**	**6**	**(151)**

Analysis of change in net debt (inclusive of leases)	At 1 October 2018 £m	Cash flow £m	Acquisitions £m	Reclassification as held for sale	Disposal of subsidiary £m	Non-cash movements £m	Exchange movement £m	At 30 September 2019 £m
Cash and cash equivalents	272	120	1	(4)	(26)	–	8	371
Bank overdrafts	(8)	5	–	3	–	–	–	–
Cash and bank overdrafts amounts included in held for sale	58	33	–	1	(91)	–	–	1
Cash, cash equivalents and bank overdrafts including cash held for sale	322	158	1	–	(117)	–	8	372
Liabilities arising from financing activities								
Loans due within one year	–	–	–	–	–	(115)	(7)	(122)
Loans due after more than one year	(913)	181	–	–	–	113	(24)	(643)
Cash held on behalf of customers	(19)	(6)	–	–	26	–	(1)	–
Cash held on behalf of customers included in held for sale	(58)	(33)	–	–	91	–	–	–
	(990)	142	–	–	117	(2)	(32)	(765)
Total	(668)	300	1	–	–	(2)	(24)	(393)

The Group's cash balances no longer include cash held on behalf of customers at 30 September 2020 (2019: £nil).

12 Cash flow and net debt *continued*

12.3 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. Cash and cash equivalents are measured at amortised cost.

	2020 £m	2019 £m
Cash at bank and in hand	**391**	370
Short-term bank deposits	**440**	1
	831	371

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.

Cash and cash equivalents are classified and measured at amortised cost under IFRS 9 and are therefore subject to the expected loss model requirements of that standard. However, no material expected credit losses have been identified. At 30 September 2020, 92% (2019: 93%) 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.

12.4 Borrowings (excluding borrowings included in held for sale)

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.

Further information on the policy applied to lease liabilities is included in note 3.4.

Current	2020 £m	2019 £m
US senior loan notes – unsecured	–	122
Lease liabilities	20	–
	20	122

Non-current	2020 £m	2019 £m
Bank loans – unsecured	490	243
US senior loan notes – unsecured	387	400
Lease liabilities	93	–
	970	643

Included in loans above is £877m (2019: £765m) of unsecured loans (after unamortised issue costs).

In the table above, bank loans and loan notes are stated net of unamortised issue costs of £4m (2019: £2m). Unsecured bank loans attract an average interest rate of 1.6% (FY19: 2.6%).

				Loan value	
Borrowings	Year issued	Interest coupon	Maturity	2020 £m	2019 £m
US private placement					
• USD 150m loan note	2013	3.08%	20–May–20	–	122
• USD 150m loan note	2013	3.71%	20–May–23	116	122
• USD 50m loan note	2013	3.86%	20–May–25	39	40
• EUR 55m loan note	2015	1.89%	26–Jan–22	50	49
• EUR 30m loan note	2015	2.07%	26–Jan–23	27	27
• USD 200m loan note	2015	3.73%	26–Jan–25	155	162

Unsecured bank loans comprises a fixed term loan of £200m (2019: £200m) expiring in September 2022 and £294m drawings (2019: £45m) under the multi-currency revolving credit facility of £692m (2019: £720m) expiring in February 2025, which consists both of US$719m/£557m (2019: US$719m/£585m) and of £135m (2019: £135m) tranches.

Further information on lease liabilities is included in note 3.4.

13 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 sets out the maturity 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.

The amounts in the consolidated balance sheet that are accounted for as financial instruments, and their classification under IFRS 9, are as follows:

		IFRS 9 classification		
As at 30 September 2020	Note	**At amortised cost £m**	**At fair value through profit or loss £m**	**Total £m**
Non-current assets				
Other financial assets		**–**	**1**	**1**
Trade and other receivables: other receivables	8.1	**2**	**3**	**5**
Current assets				
Trade and other receivables: trade receivables	8.1	**202**	**–**	**202**
Trade and other receivables: other receivables	8.1	**17**	**1**	**18**
Cash and cash equivalents	12.3	**831**	**–**	**831**
Current liabilities				
Trade and other payables excluding other tax and social security	8.2	**(262)**	**–**	**(262)**
Borrowings	12.4	**(20)**	**–**	**(20)**
Non-current liabilities				
Borrowings	12.4	**(970)**	**–**	**(970)**
		(200)	**5**	**(195)**

As at 30 September 2019	Note	IFRS 9 classification At amortised cost £m	At fair value through profit or loss £m	Total £m
Non-current assets				
Other financial assets		3	1	4
Trade and other receivables: other receivables	8.1	1	3	4
Current assets				
Trade and other receivables: trade receivables	8.1	257	–	257
Trade and other receivables: other receivables	8.1	13	2	15
Cash and cash equivalents	12.3	371	–	371
Current liabilities				
Trade and other payables excluding other tax and social security	8.2	(254)	–	(254)
Borrowings	12.4	(122)	–	(122)
Non-current liabilities				
Borrowings	12.4	(643)	–	(643)
		(374)	6	(368)

13.1 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, lease liabilities, and short-term bank deposits and cash at bank and in hand.

Bank loans and loan notes

The fair value of loan notes 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.

The fair value of bank loans is determined using a discounted cash flow valuation technique calculated at prevailing interest rates, and therefore can be considered as a level 3 fair value as defined within IFRS 13.

	Note	**2020** **Book value £m**	**2020** **Fair value £m**	2019 Book value £m	2019 Fair value £m
Long-term borrowing – Bank loans and loan notes	12.4	**(877)**	**(902)**	(643)	(660)
Short-term borrowing – Bank loans and loan notes	12.4	**–**	**–**	(122)	(122)

13 Financial instruments *continued*

Contingent consideration receivable

The Group recognises contingent consideration receivable of £4m (2019: £5m) relating to the disposal of Sage Payroll Solutions in the year ended 30 September 2019. This is classified as a financial asset measured at fair value through profit or loss. Its fair value is determined using a discounted cash flow valuation technique. The main inputs to the calculation for which assumptions have been made are the discount rate and the period over which the consideration will be received. This is a level 3 fair value under IFRS 13.

13.2 Maturity of financial liabilities

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

				2020
	Borrowings: bank loans and loan notes £m	**Borrowings: lease liabilities £m**	**Trade and other payables excluding other tax and social security £m**	**Total £m**
In less than one year	**19**	**25**	**262**	**306**
In more than one year but not more than two years	**269**	**23**	**2**	**294**
In more than two years but not more than five years	**656**	**46**	**–**	**702**
In more than five years	**–**	**46**	**–**	**46**
	944	**140**	**264**	**1,348**

			2019
	Borrowings: bank loans and loan notes £m	Trade and other payables excluding other tax and social security £m	Total £m
In less than one year	148	255	403
In more than one year but not more than two years	217	1	218
In more than two years but not more than five years	278	–	278
In more than five years	206	–	206
	849	256	1,105

The maturity profile of provisions is disclosed in note 9.

13.3 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:

	2020 £m	2019 £m
Expiring in more than two years but not more than five years	**398**	675

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.

13.4 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 resulting from changes in market interest rates.

	2020		2019	
	Income (losses)/gains £m	**Equity (losses)/gains £m**	Income (losses)/gains £m	Equity (losses)/gains £m
1% increase in market interest rates	**(3)**	**(3)**	(2)	(2)
1% decrease in market interest rates	**3**	**3**	2	2

The following table shows the illustrative effect on equity resulting from changes in sterling/US Dollar and sterling/Euro exchange rates:

	2020	2019
	Equity gains/(losses) £m	Equity gains/(losses) £m
10% strengthening of sterling versus the US Dollar	**28**	41
10% strengthening of sterling versus the Euro	**7**	7
10% weakening of sterling versus the US Dollar	**(34)**	(50)
10% weakening of sterling versus the Euro	**(9)**	(8)

13.5 Hedge accounting

Accounting policy

On transition to IFRS 9, the Group elected to continue to apply the hedge accounting requirements of IAS 39. The Group applies hedge accounting to external borrowings that are designated as a hedge of a net investment in foreign operations. 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 Group hedges the risk exposure to foreign currency exchange movements of its net investment in its subsidiaries in the US and Eurozone. A proportion of the Group's external US Dollar denominated borrowings, and the total of its Euro denominated borrowings, are designated as hedging instruments. The underlying risk of the hedging instruments exactly matches the hedged risk as the borrowings and net investments in subsidiaries are denominated in the same currencies, giving a hedge ratio of 1:1. Hedge ineffectiveness will arise if the carrying amount of the net investment falls below the carrying amount of the designated borrowings.

The impact of the hedging instrument on the consolidated balance sheet is:

As at 30 September 2020		Nominal amount	**Carrying amount £m**	**Change in carrying amount as a result of foreign currency movements in the year recognised in OCI £m**
Non-current borrowings	USD loan notes	USD 398m	**308**	**16**
Non-current borrowings	EUR loan notes	EUR 85m	**77**	**(2)**
			385	**14**

13 Financial instruments *continued*

13.5 Hedge accounting *(continued)*

As at 30 September 2019		Nominal amount	Carrying amount £m	Change in carrying amount as a result of foreign currency movements in the year recognised in OCI £m
Current borrowings	USD loan notes	USD 133m	108	
Non-current borrowings	USD loan notes	USD 400m	324	
		USD 533m	432	25
Non-current borrowings	EUR loan notes	EUR 85m	76	–
			508	25

The impact of the hedged item on the statement of financial position is as follows:

	2020		2019	
	Change in value of hedged item used to determine hedge effectiveness £m	**Foreign currency translation reserve £m**	Change in value of hedged item used to determine hedge effectiveness £m	Foreign currency translation reserve £m
Net investment in foreign subsidiaries – USD	**(16)**	**46**	25	82
Net investment in foreign subsidiaries – EUR	**2**	**14**	–	12
	(14)	**60**	25	94

The hedging movement recognised in other comprehensive income is equal to the change in value for measuring effectiveness. No ineffectiveness is recognised in profit or loss.

On disposal of Sage Payroll Solutions in the year ended 30 September 2019, an exchange difference of £6m related to hedging instruments was recycled through the income statement in proportion to the disposed net investment.

Further information on the Group's exposure to foreign currency risk and how the risk is managed is included in note 13.6.

13.6 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 through regular review by the Board and makes adjustments to it with respect to changes in economic conditions and our strategic objectives. Priorities for capital allocation are organic investment; bolt on acquisitions of complementary technology and portfolio rationalisation; the maintenance and growth of the dividend in real terms; and additional capital returns to shareholders, if appropriate. Over the medium term, the Group plans to operate in a broad range of 1-2x net debt to EBITDA, with flexibility to move outside this range as the business needs require. In the event that the Group needs to adjust its capital structure, it would review the appropriateness of existing levels of debt and consider whether returns to shareholders remain appropriate.

To support the Group's financial strength in light of the Covid-19 pandemic, Sage announced on 6 April 2020 the cancellation of the previously announced £250m Share Buyback Programme, after £7m of shares had been purchased.

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 well diversified 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 or be specifically authorised as an exception.

Further information on the credit risk management procedures applied to trade receivables is given in note 8.1 and to cash and cash equivalents in note 12.3. The carrying amounts of trade receivables and cash and cash equivalents shown in those notes represent the Group's maximum exposure to credit risk.

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 a bank revolving credit facility and a term loan, which are subject to floating interest rates. At 30 September 2020, the Group had £831m (2019: £371m) 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 2020, the Group's borrowings comprised US private placement loan notes of £387m (2019: £522m), which have an average fixed interest rate of 3.34% (2019: 3.33%); and unsecured bank loans of £490m (2019: £243m), comprising a fixed term loan and a bank revolving credit facility, which have an average interest rate of 1.6% (2019: 2.6%).

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 2020 and 30 September 2019, these exposures were immaterial to the Group.

14 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.

14.1 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 $1^{4/77}$ pence each	**2020 shares**	**2020 £m**	2019 shares	2019 £m
At 1 October and 30 September	**1,120,789,295**	**12**	1,120,789,295	12

14 Equity *continued*

14.2 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, EPS and annualised recurring revenue 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 £29m (2019: £32m), all of which related to equity-settled share-based payment transactions.

Scheme	**2020 £m**	2019 £m
Performance Share Plan	**6**	6
Restricted Share Plan	**21**	23
Share options	**2**	3
Total	**29**	32

The Sage Group Performance Share Plan

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

Awards for 2018

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

The revenue growth target is based on the 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 2017 onwards is the companies comprised in the FTSE 100 Index at the start of the performance period, excluding financial services and extraction companies.

Awards from 2019

These performance shares are subject to a service condition and two performance conditions. Performance conditions are weighted 70% on the achievement of a revenue growth target and 30% on the achievement of a TSR target.

The revenue growth target is based on the Company's compound annualised recurring revenue growth. Where the Company's annualised recurring revenue growth is between prescribed target ranges, the extent to which the revenue performance condition is satisfied will be calculated on a straight-line pro-rata basis within a defined range.

2019 awards	Range 1	Range 2
• Annualised recurring revenue growth (%)	**6.2%-7.7%**	**7.7%-8.5%**
• Performance condition satisfied (%)	**14%-56%**	**56%-70%**

2020 awards	Range 1	Range 2
• Annualised recurring revenue growth (%)	**5.6%-7.0%**	**7.0%-7.7%**
• Performance condition satisfied (%)	**14%-56%**	**56%-70%**

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 6% and 24% 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 24% and 30%.

The comparator group for awards granted from 2019 onwards is the companies comprised in the FTSE 100 Index at the start of the performance period, excluding financial services and extraction companies.

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

Grant date	December 2019	May 2020
Share price at grant date	**7.36**	**6.77**
Number of employees	**39**	**4**
Shares under award	**2,033,746**	**112,941**
Vesting period (years)	**3**	**3**
Expected volatility	**23.3%**	**26.5%**
Award life (years)	**3**	**3**
Expected life (years)	**3**	**3**
Risk-free rate	**0.52%**	**(0.04%)**
Fair value per award	**6.15**	**6.02**

Grant date	December 2018	February 2019	May 2019	September 2019
Share price at grant date	5.78/5.86	6.61	7.39	6.71
Number of employees	94	8	2	1
Shares under award	2,921,885	712,414	45,526	10,463
Vesting period (years)	1-3	3	3	3
Expected volatility	22.7%	25.1%	22.6%	22.7%
Award life (years)	1-3	3	3	3
Expected life (years)	1-3	3	3	3
Risk-free rate	0.75%	0.85%	0.71%	0.46%
Fair value per award	4.88	5.58	6.84	5.88

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.

14 Equity *continued*

14.2 Share-based payments *continued*

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

	2020 Number '000s	2020 Weighted average exercise price £	2019 Number '000s	2019 Weighted average exercise price £
Outstanding at 1 October	**7,368**	**–**	6,245	–
Awarded	**2,147**	**–**	3,690	–
Forfeited	**(2,598)**	**–**	(2,085)	–
Exercised	**(343)**	**–**	(482)	–
Outstanding at 30 September	**6,574**	**–**	7,368	–
Exercisable at 30 September	**–**	**–**	–	–

	2020 Weighted average remaining life years		2019 Weighted average remaining life years	
Range of exercise prices	**Expected**	**Contractual**	Expected	Contractual
N/A	**1.2**	**1.2**	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 either purchased in the market or treasury shares are utilised to satisfy vesting awards. During the year 4,424,901 (2019: 5,258,827) awards were made. These awards only have service conditions and their fair values are equal to the share price on the date of grant, ranging from 657-736p.

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

	2020 Number '000s	2020 Weighted average exercise price £	2019 Number '000s	2019 Weighted average exercise price £
Outstanding at 1 October	**6,776**	**–**	2,734	–
Awarded	**4,425**	**–**	5,259	–
Forfeited	**(743)**	**–**	(423)	–
Exercised	**(2,181)**	**–**	(794)	–
Outstanding at 30 September	**8,277**	**–**	6,776	–
Exercisable at 30 September	**–**	**–**	–	–

	2020 Weighted average remaining life years		2019 Weighted average remaining life years	
Range of exercise prices	**Expected**	**Contractual**	Expected	Contractual
N/A	**1.5**	**1.5**	1.5	1.5

Share options

Share options comprise The Sage Global Save and Share Plan (the "Save and Share Plan") and acquisition options. These are not considered to be material to the Group's overall share-based payment arrangements. The key aspects of the Group's share option arrangements are explained below.

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 years on the assumption that 30% of options will lapse over the service period as employees leave the Group.

In the year, 2,924,638 (2019: 1,002,584) options were granted under the terms of the Save and Share Plan.

As part of certain acquisitions, the Group awards certain employees with options proportional to previously held options in the company acquired. Nil (2019: nil) options have been granted in the year. 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 1-36 months.

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

		2020		2019
	Number '000s	Weighted average exercise price £	Number '000s	Weighted average exercise price £
Outstanding at 1 October	4,216	2.03	5,319	1.92
Forfeited	(26)	3.29	(97)	3.41
Exercised	(934)	1.64	(1,006)	1.35
Outstanding at 30 September	3,256	2.13	4,216	2.03
Exercisable at 30 September	2,986	1.95	3,282	1.65

		2020		2019
	Weighted average remaining life years		Weighted average remaining life years	
Range of exercise prices	Expected	Contractual	Expected	Contractual
22p-702p	–	5.0	1.7	6.0

14.3 Other reserves

All components of reserves are presented separately on the face of the consolidated statement of changes in equity. This note explains the nature and purpose of the translation and merger reserves.

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.

14 Equity *continued*

14.4 Retained earnings

Retained earnings	2020 £m	2019 £m
At 1 October	**760**	621
Adjustment on initial application of IFRS 16 net of tax	**(7)**	–
Adjustment on initial application of IFRS 15 net of tax	**–**	24
Adjustment on initial application of IFRS 9 net of tax	**–**	(5)
Profit for the year	**310**	266
Actuarial loss on post-employment benefit obligations (note 10)	**–**	(1)
Value of employee services including deferred tax	**29**	33
Proceeds from issuance of treasury shares	**9**	3
Share Buyback Programme	**(7)**	–
Dividends paid to owners of the parent (note 14.5)	**(186)**	(181)
Total	**908**	760

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 purchased 1,101,918 under the Share Buyback Programme (2019: none).

During the year the Group agreed to satisfy the vesting of certain share awards, utilising a total of 4,956,977 (2019: 3,781,720) treasury shares. The Group gifted 250,000 shares (2019: nil) to the Employee Share Trust.

At 30 September 2020 the Group held 27,844,111 (2019: 31,699,170) 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 190,962 ordinary shares in the Company (2019: 35,792) at a cost of £1m (2019: £nil) and a nominal value of £nil (2019: £nil).

During the year, the Trust agreed to satisfy the vesting of certain share awards, utilising a total of 94,830 (2019: 368,733) shares held in the Trust. The Trust received £nil (2019: £2m) additional funds for future purchase of shares in the market.

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 2020 was £1m (2019: £nil).

14.5 Dividends

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

	2020 £m	2019 £m
Final dividend paid for the year ended 30 September 2019 of 11.12p per share	**121**	–
(2019: final dividend paid for the year ended 30 September 2018 of 10.85p per share)	**–**	118
Interim dividend paid for the year ended 30 September 2020 of 5.93p per share	**65**	–
(2019: interim dividend paid for the year ended 30 September 2019 of 5.79p per share)	**–**	63
	186	181

In addition, the Directors are proposing a final dividend in respect of the financial year ended 30 September 2020 of 11.32p per share which will absorb an estimated £124m of shareholders' funds. The Company's distributable reserves are sufficient to support the payment of this dividend. If approved at the AGM, it will be paid on 11 February 2021 to shareholders who are on the register of members on 15 January 2021. These financial statements do not reflect this proposed dividend payable.

15 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 Group has early adopted the amendments to IFRS 3 "Business Combinations" for business combinations and asset acquisitions occurring on or after 1 October 2019, as permitted by the transitional provisions for the amendments. The amendments would otherwise have become mandatory for the Group's business combinations and asset acquisitions occurring on or after 1 October 2020. The amendments clarify the definition of a business under IFRS 3 to help companies to determine whether an acquisition is of a business or a group of assets.

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 remeasured, 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.

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.

15 Acquisitions and disposals *continued*

15.1 Acquisitions

Measurement adjustments to business combinations reported using provisional amounts

On 27 September 2019, the Group acquired 100% of the equity capital of Ocrex Limited ("Ocrex"), a company based in Ireland, for total consideration of £42m, paid in cash. Ocrex is a leading provider of data entry automation of accountants, bookkeepers and businesses through its main product, AutoEntry. The acquisition of Ocrex and AutoEntry allows the Group to accelerate its vision to become a software-as-a-service ("SaaS") company.

The net assets recognised in the financial statements at 30 September 2019 were based on a provisional assessment of their fair value while the Group undertook a valuation of the acquired intangible assets. The valuation had not been completed by the date the 2019 financial statements were approved for issue by the Board of Directors.

During the year, the valuation was approved and completed, and the acquisition date fair value of the intangible assets was £17m. The intangible assets identified and subsequently valued as at the date of acquisition include:

Summary of acquisition	Valuation £m	Useful life
Brands	1	8 years
Technology	10	8 years
Customer relationships	6	7 years
Total intangible assets	**17**	

The 2019 comparative information has been restated to reflect the adjustment to the provisional amounts. As a result of the recognition of intangible assets, there was an increase in the deferred tax liability of £2m. There was also a corresponding reduction in goodwill of £15m, resulting in £26m of total goodwill arising on the acquisition which comprises the fair value of the acquired control premium, work force in place and the expected synergies. The goodwill arising from the acquisition has been allocated to the Group's geographic cash-generating units ("CGUs") where the underlying benefit arising from the acquisition is expected to be realised. This is predominantly within the UK and North America regions. No goodwill is expected to be deductible for tax purposes.

As set out below, no other adjustments have been made to the provisional fair values of assets and liabilities which were reported at 30 September 2019.

Fair value of identifiable net assets acquired	Previously reported provisional fair values £m	Measurement adjustments £m	Final fair values £m
Intangible assets	–	17	17
Other identifiable net assets	1	–	1
Deferred tax liability	–	(2)	(2)
Fair value of identifiable net assets acquired	**1**	**15**	**16**
Goodwill	41	(15)	26
Total consideration	**42**	**–**	**42**

The increased amortisation charge on the intangible assets from the acquisition date to 30 September 2019 was not material, therefore no adjustment has been made for this.

No changes have been identified to the directly attributable acquisition related costs which were incurred during the financial year ended 30 September 2019 in relation to the acquisition.

15.2 Costs relating to business combinations in the year

Costs directly relating to completion of the business combinations in the year of £nil (2019: £2m) 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.

15.3 Disposals and discontinued operations

Disposals made during the current year

On 11 March 2020, the Group completed the sale of Sage Pay, the Group's European payments processing business, for total consideration of £241m. On 31 March 2020, the Group completed the sale of its Brazilian business for total consideration of £1m. The gains and losses on disposal are calculated as follows:

Gain on disposal	Sage Pay £m	Brazil £m	Total £m
Cash consideration	241	1	242
Gross consideration	241	1	242
Transaction costs	(9)	(2)	(11)
Net consideration	232	(1)	231
Net assets disposed	(40)	(7)	(47)
Cumulative foreign exchange differences reclassified from other comprehensive income to the income statement	1	(44)	(43)
Gains/(losses) on disposal	**193**	**(52)**	**141**

Net assets disposed comprise:

	Sage Pay £m	Brazil £m	Total £m
Goodwill	25	–	25
Other intangible assets	1	–	1
Property, plant and equipment	2	–	2
Deferred income tax asset	–	6	6
Inventory	1	–	1
Trade and other receivables	6	11	17
Cash and cash equivalents	9	4	13
Total assets	**44**	**21**	**65**
Trade and other payables	(3)	(4)	(7)
Borrowings	–	(1)	(1)
Current income tax liabilities	–	(1)	(1)
Provisions	–	(1)	(1)
Deferred income	(1)	(7)	(8)
Total liabilities	**(4)**	**(14)**	**(18)**
Net assets	**40**	**7**	**47**

The net gain is reported within continuing operations, as an adjustment between underlying and statutory results.

Prior to the disposals, Sage Pay formed part of the Group's Northern Europe reporting segment and the Brazilian business was part of the International segment. The net inflow of cash and cash equivalents on the disposal is calculated as follows:

Inflow of cash and cash equivalents on disposal	Sage Pay £m	Brazil £m	Total £m
Cash consideration	241	1	242
Transaction costs	(9)	(4)	(13)
Net consideration received	**232**	**(3)**	**229**
Cash disposed	(9)	(4)	(13)
Inflow/(outflow) of cash and cash equivalents on disposal	**223**	**(7)**	**216**

15 Acquisitions and disposals *continued*

15.3 Disposals and discontinued operations *(continued)*

Discontinued operations and assets and liabilities held for sale

The Group had no discontinued operations during the years ended 30 September 2020 or 30 September 2019.

Assets and liabilities held for sale at 30 September 2020 reflect four disposal groups which comprise part of the Group's businesses in the Asia Pacific region, Poland, Switzerland, and the payroll processing business in South Africa.

The Group's operations in the Asia Pacific region, which includes its subsidiaries in Australia, Malaysia and Singapore, form part of the International reportable segment. Poland and Switzerland form part of the Central and Southern Europe reportable segment. Where applicable, these disposal groups exclude certain global strategic product lines in these countries, such as Sage Intacct, Sage People and Sage X3. The payroll processing business in South Africa forms part of the International reporting segment.

The sales are expected to be finalised during the year ending 30 September 2021.

On classification as held for sale, no adjustment was required to reduce the carrying value of the disposal groups down to fair value less costs to sell. Note that the fair value less costs to sell of the disposal groups held for sale was determined using observable inputs and estimates that required some adjustments using unobservable data, leading to level 3 classification when considering the fair value hierarchy under IFRS 13.

Assets and liabilities held for sale at 30 September 2019 relate to the Group's Sage Pay and Brazilian businesses which have been sold during the current year (see note 15.2). Assets and liabilities held for sale at 30 September 2020 comprise:

	Asia Pacific 2020 £m	Poland 2020 £m	Switzerland 2020 £m	Payroll processing business (South Africa) 2020 £m	Total 2020 £m	Total 2019 £m
Goodwill	26	12	8	1	47	26
Other intangible assets	1	–	–	–	1	1
Property, plant and equipment	10	1	3	–	14	2
Deferred income tax asset	3	2	–	–	5	7
Customer acquisition costs	4	2	1	–	7	–
Current income tax asset	1	–	–	–	1	–
Inventory	–	–	–	–	–	1
Trade and other receivables	10	4	2	–	16	22
Cash and cash equivalents	8	2	7	–	17	4
Total assets	63	23	21	1	108	63
Trade and other payables	(8)	(4)	(4)	–	(16)	(12)
Borrowings	(7)	(1)	(1)	–	(9)	(3)
Current income tax liabilities	–	–	(1)	–	(1)	(1)
Post-employment benefits	–	–	(4)	–	(4)	–
Provisions	(1)	(1)	–	–	(2)	(6)
Deferred income	(25)	(9)	(7)	–	(41)	(11)
Total liabilities	(41)	(15)	(17)	–	(73)	(33)
Net assets	22	8	4	1	35	30

Specific to the disposal groups held for sale at 30 September 2020, the aggregate income included in other comprehensive income relating to cumulative foreign exchange differences amounted to £38m. Upon disposal, the income will be recycled to the income statement.

16 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 and the Non-executive Directors. Transactions and outstanding balances between the parent and its subsidiaries within the Group and between those subsidiaries have been eliminated on consolidation and are not disclosed in this note. 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.

17 IFRS 16

This note provides information on the changes resulting from the adoption of IFRS 16 and quantitative information on their impact at 1 October 2019.

Differences between IFRS 16 and previous accounting policies

The adoption of IFRS 16 has changed the accounting policy applied to most of the Group's significant arrangements in which it is a lessee. These relate mainly to property leases for office buildings. The Group also has some leases for vehicles and other equipment. Prior to 1 October 2019, the Group accounted for all such leases as operating leases under IAS 17, with rentals payable charged to the income statement on a straight-line basis as an operating expense presented within selling and administrative expenses. Where rent payments were prepaid or accrued, their balances were reported under prepayments and accruals respectively.

The Group's accounting policies under IFRS 16 are set out in note 3.4.

Accounting for the transition to IFRS 16

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

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

- For vehicle leases, the Group has applied a single discount rate to a portfolio of those leases with reasonably similar characteristics;
- For all leases, the Group has excluded from the measurement of the right-of-use asset initial direct costs incurred when obtaining the lease; and
- The Group has relied on its existing onerous lease assessments under IAS 37 to impair right-of-use assets instead of performing a new impairment assessment for those assets.

The Group reassessed its lease portfolio against the new IFRS 16 definition of a lease. This resulted in a small number of contracts for property-related arrangements such as car parking not qualifying as leases because the landlord has the ability to substitute the available assets for others throughout the terms of the leases, and would benefit economically from doing so (substantive substitution rights).

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

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

17 IFRS 16 *continued*

Quantitative impact of policy changes on consolidated balance sheet at 1 October 2019

The Group recognised the following adjustments to amounts reported in the balance sheet at 1 October 2019.

	As at 1 October 2019				
	IFRS 16 right-of-use assets and lease liabilities £m	Derecognise IAS 17 rent accruals and prepayments £m	Right-of-use asset impairment* £m	Tax impact £m	Total Impact £m
Non-current assets					
Property, plant and equipment	118	–	(5)	–	113
Deferred income tax assets	–	–	–	2	2
Current assets					
Trade and other receivables	–	(2)	–	–	(2)
Assets classified as held for sale	1	–	–	–	1
Current liabilities					
Borrowings	(30)	–	–	–	(30)
Trade and other payables	–	10	–	–	10
Provisions	–	–	1	–	1
Liabilities classified as held for sale	(1)	–	–	–	(1)
Non-current liabilities					
Borrowings	(105)	–	–	–	(105)
Provisions	–	–	4	–	4
Net assets	(17)	8	–	2	(7)
Total equity	(17)	8	–	2	(7)

Notes:

* As a practical expedient on transition, the Group has relied on its existing onerous lease assessments under IAS 37 to impair right-of-use assets instead of performing a new impairment assessment for those assets. As a result, onerous provisions relating to lease payments were reclassified to the right-of-use asset.

** Tax impact represents deferred tax on the net transition adjustment.

The standard does not impact net cash flow, but cash flows from the principal portion of lease payments for property and vehicle leases are now presented within cash flows from financing activities as the payments represent the repayment of lease liabilities. The interest element of these lease payments is included in interest paid within cash flows from operating activities. Previously lease payments were reclassified as cash flows from operating activities.

The table below reconciles the operating lease obligations reported under the previous accounting standard, IAS 17 "Leases", at 30 September 2019 to the lease liability recorded under IFRS 16 at the date of transition.

	£m
Operating lease commitments reported at 30 September 2019	**162**
Commitment on a lease not commenced at 1 October 2019*	(7)
IAS 17 operating leases not qualifying as leases under IFRS 16**	(1)
Effect of discounting of future cash flows under IFRS 16***	(18)
Lease liability recognised at 1 October 2019	**136**
Of which:	
- Current lease liabilities	30
- Non-current lease liabilities	105
- Liabilities classified as held for sale	1

Notes:

* At 30 September 2019, the Group had signed an agreement to lease a property but had not yet been granted access to it. Therefore, at that date the lease qualified for disclosure as a commitment under IAS 17, but not for recognition as a liability under IFRS 16.

** A small number of property arrangements treated as leases under IAS 17 did not meet the IFRS 16 definition of a lease. In most cases this was because the landlord has substantive substitution rights.

*** Lease commitments disclosed under IAS 17 are not discounted to their present value. Under IFRS 16, lease liabilities have been discounted using the incremental borrowing rate for each lease.

The weighted average incremental borrowing rate applied to discount the lease liabilities to their present value at 1 October 2019 was 3.7%. Rates applied to individual leases ranged from 0.25% to 11.6%. Differences in discount rates reflect principally the geographic location of leases and the length of the remaining lease term.

The estimated impact of the application of IFRS 16, as opposed to IAS 17, on the Group's income statement for the year ended 30 September 2020 was to increase operating profit by approximately £3m (due to lease costs now recognised as depreciation) while decreasing the profit for the year by approximately £1m due to the £4m increase in finance costs from the lease liabilities in the 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 the Group. The Group percentage of equity capital and voting rights is 100% for all subsidiaries listed below unless indicated otherwise. The results for all of the subsidiaries have been consolidated within these financial statements.

Country	Name	Registered address
Australia	Handisoft Software Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy Chatswood 2067 Australia
Australia	Ocrex Australia Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy Chatswood 2067 Australia
Australia	Sage Australia Holdings Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy Chatswood 2067 Australia
Australia	Sage Business Solutions Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy Chatswood 2067 Australia
Australia	Sage Intacct Australia Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy Chatswood 2067 Australia
Australia	Sage One Pty. Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy Chatswood 2067 Australia
Australia	Sage Software Australia Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy Chatswood 2067 Australia
Australia	Snowdrop Systems Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy Chatswood 2067 Australia
Australia	Softline Australia Holdings Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy Chatswood 2067 Australia
Austria	Sage GmbH	Stella-Klein-Löw-Weg 15, 1020 Wien, Austria
Bahamas	Intelligent Apps Holdings Ltd	2 Bayside Executive Park, West Bay Street & Blake Road, Nassau, Bahamas
Belgium	Sage S.A.	Buro & Design Center, Esplanade 1, 1020, Brussels, Belgium
Botswana	Sage Software Botswana (Pty.) Ltd	Plot 50371, Fairground Office Park, Gaborone, Botswana
Canada	Sage Software Canada Ltd.	111, 5th Avenue SW, Suite 3100-C, Calgary AB T2P 5L3, Canada
France	Sage Holding France SAS	10 Place de Belgique, 92250, La Garenne-Colombes, Paris, France
France	Sage Overseas Limited (Branch Registration)	10 Place de Belgique, 92250, La Garenne-Colombes, Paris, France
France	Sage SAS	10 Place de Belgique, 92250, La Garenne-Colombes, Paris, France
Germany	Best Software (Germany) GmbH	Franklinstraße 61-63, 60486, Frankfurt am Main, Germany
Germany	eWare GmbH	Untere Weidenstr. 5, c/o RAè Becker & Koll., 81543, München, Germany
Germany	Sage bäurer GmbH	Josefstraße 10, 78166 Donauerschingen, Germany
Germany	Sage CRM Solutions GmbH	Franklinstraße 61-63, 60486, Frankfurt am Main, Germany
Germany	Sage GmbH	Franklinstraße 61-63, 60486, Frankfurt am Main, Germany
Germany	Sage Management & Services GmbH	Franklinstraße 61-63, 60486, Frankfurt am Main, Germany
Germany	Sage Services GmbH	Karl-Heine-Straße 109-111, 04229, Leipzig, Germany
India	Intacct Software Private Limited	No. 26/1 3rd Floor, Esteem Arcade, Devearaju Urs Road, Race Course Road, Bangalore, 560001, India
India	Ocrex Enterprises Private Limited[1]	House No 546, Sector-10D, Chandigarh 160011, Chandigarh, India
India	Sage Software India Private Ltd (In Liquidation)	N-34, Lower Ground Floor, Kalkaji, New Delhi, 110 019, India
Ireland	Ocrex Limited	11/12 Warrington Place, Dublin 2, Ireland
Ireland	Sage Global Services (Ireland) Limited	Number One, Central Park, Leopardstown, Dublin 18, Ireland
Ireland	Sage Hibernia Limited	Number One, Central Park, Leopardstown, Dublin 18, Ireland
Ireland	Sage Irish Finance Company Unlimited Company	Number One, Central Park, Leopardstown, Dublin 18, Ireland
Ireland	Sage Technologies Limited	Number One, Central Park, Leopardstown, Dublin 18, Ireland

Country	Name	Registered address
Ireland	Sage Treasury Ireland Unlimited Company	Number One, Central Park, Leopardstown, Dublin 18, Ireland
Ireland	TAS Software Limited	Number One, Central Park, Leopardstown, Dublin 18, Ireland
Ireland	Tonwomp Unlimited Company	Number One, Central Park, Leopardstown, Dublin 18, Ireland
Israel	Budgeta Technologies Ltd	Derech Menachem Begin 144, Tel Aviv-Yafo, 6492102, Israel
Kenya	Sage Software East Africa Limited	LR No. 1870/IX/96, 114 & 115 Nivina Towers, Westlands Road, Westlands, Nairobi, P.O Box 38283, Kenya
Latvia	CakeHR SIA	Maskavas 10, Riga, LV-1050, Latvia
Malaysia	Creative Purpose Sdn Bhd (In Liquidation)	Suite B13A-4, Tower B, Level 13A, Northpoint Offices, Mid Valley City, No. 1 Medan Syed Putra Utara, 59200 Kuala Lumpur, Malaysia
Malaysia	Sage Software Sdn Bhd	SO-26-02, Menara 1,No. 3 Jalan Bangsar, KL Eco City, 59200, Kuala Lumpur, Malaysia
Morocco	Sage Software SARL	Tour Crystal 1, Niveau 9, Bd Sidi Mohammed Ben Abdellah, Casablanca, 20030, Morocco
Namibia	Sage Software Namibia (Pty) Ltd	3rd Floor, 344 Independence Avenue, Windhoek, P O BOX 1571, Namibia
Nigeria	Sage Software Nigeria Limited	Landmark Towers, 5B Water Corporation Road, Victoria Island, Lagos, Nigeria
Poland	Sage sp. z o.o.	Aleje Jerozolimskie 132, 02-305 Warsaw, Poland
Portugal	Sage Portugal – Software, S.A.	Edifício Olympus II, Av. Dom Afonso Henriques 1462, 4450 013, Matosinhos, Portugal
Romania	Intacct Development Romania SRL	Cluj-Napoca, Bd. 21 Decembrie 1989 no. 77, 1st floor, room C.1.2 building C-D, The Office, Cluj county, Romania
Singapore	Sage Singapore Holdings Pte. Ltd.	12 Marina View, #25-02/03 Asia Square Tower 2, 01896, Singapore
Singapore	Sage Software Asia Pte. Ltd.	12 Marina View, #25-02/03 Asia Square Tower 2, 01896, Singapore
South Africa	Sage Alchemex (Pty) Ltd	23A Flanders Drive, Mount Edgecombe, Durban, 4321, South Africa
South Africa	Sage South Africa (Pty) Ltd*	Floor 6 Gateway West, 22 Magwa Crescent, Waterfall 5-1R, Midrand, Gauteng, 2066, South Africa
Spain	Sage Spain Holdco, S.L.U.	Moraleja Building One – Planta 1, Parque Empresarial de La Moraleja, Avenida de Europa no19, 28108 Alcobendas, Madrid, Spain
Spain	Sage Spain, S.L.[1]	Moraleja Building One – Planta 1, Parque Empresarial de La Moraleja, Avenida de Europa no19, 28108 Alcobendas, Madrid, Spain
Switzerland	KHK Software AG	Platz 10, Root D4, CH-6039, Switzerland
Switzerland	Sage Bäurer AG	Platz 10, Root D4, CH-6039, Switzerland
Switzerland	Sage Schweiz AG	Platz 10, Root D4, CH-6039, Switzerland
United Arab Emirates	Sage Software Middle East FZ-LLC	Suite 118, Building No. 11, Dubai Internet City, Dubai (U.A.E)
United Kingdom	ACCPAC UK Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Interact UK Holdings Limited*	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	KCS Global Holdings Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Multisoft Financial Systems Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Ocrex UK Ltd	Quatro House, Lyon Way, Frimley, Camberley, Surrey, GU16 7ER, United Kingdom
United Kingdom	Protx Group Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Protx Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage (UK) Ltd	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage CRM Solutions Limited	Sage House, Wharfedale Road, Winnersh, Wokingham, Berkshire, RG41 5RD, United Kingdom
United Kingdom	Sage Euro Hedgeco 1	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom

18 Group undertakings *continued*

Country	Name	Registered address
United Kingdom	Sage Euro Hedgeco 2	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Far East Investments Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Global Services Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Hibernia Investments No.1 Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Hibernia Investments No.2 Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Holding Company Limited*	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Holdings Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Intacct UK Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Irish Investments LLP	North Park, Newcastle Upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Irish Investments One Limited*	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Irish Investments Two Limited*	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Online Holdings Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Overseas Limited.	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Management Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage People Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	HR Bakery Ltd	62 Stakes Road, Purbrook, Waterlooville, Hampshire, PO7 5NT, United Kingdom
United Kingdom	Sage Software Ltd	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Treasury Company Limited*	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage US LLP	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage USD Hedgeco 1	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage USD Hedgeco 2	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Whitley Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sagesoft	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Snowdrop Systems Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	TAS Software Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United States	Ocrex, Inc.	15 John Poulter Road, Lexington, MA 02421, United States
United States	Sage Budgeta, Inc.	300 Park Avenue, Suite 300, San Jose, CA 95110, United States
United States	Sage Global Services US, Inc.	271 17th Street NW, Suite 1100 Atlanta, Georgia 30363, United States
United States	Sage Intacct, Inc.	300 Park Avenue, Suite 300, San Jose, CA 95110, United States
United States	Sage People, Inc.	271 17th Street NW, Suite 1100 Atlanta, Georgia 30363, United States
United States	Sage Software Holdings, Inc.	C/O Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle, Delaware, 19808, United States
United States	Sage Software International, Inc.	271 17th Street NW, Suite 1100 Atlanta, Georgia 30363, United States
United States	Sage Software North America	271 17th Street NW, Suite 1100 Atlanta, Georgia 30363, United States
United States	Sage Software, Inc.	271 17th Street NW, Suite 1100 Atlanta, Georgia 30363, United States
United States	Sage Tempus, Inc.	271 17th Street NW, Suite 1100 Atlanta, Georgia 30363, United States
United States	Softline Holdings USA, Inc.	271 17th Street NW, Suite 1100 Atlanta, Georgia 30363, United States
United States	Softline Software USA, LLC	271 17th Street NW, Suite 1100 Atlanta, Georgia 30363, United States
United States	Softline Software, Inc.	271 17th Street NW, Suite 1100 Atlanta, Georgia 30363, United States
United States	South Acquisition Corp.	C/O Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle, Delaware, 19808, United States

Notes:

* Direct subsidiary
1 Group holding in the subsidiary is >99% and <100%

Contents

Company financial statements

Company balance sheet

At 30 September 2020

	Note	**2020 £m**	2019 £m
Non-current assets: investments	2	**3,088**	3,088
Current assets			
Cash at bank and in hand	3	**12**	2
Debtors – amounts due greater than one year £nil (2019: £418m)	4	**1,196**	1,120
		1,208	1,122
Creditors: amounts falling due within one year			
Trade and other payables	5	**(156)**	(1,420)
Net current assets/(liabilities)		**1,052**	(298)
Total assets less current liabilities		**4,140**	2,790
Net assets		**4,140**	2,790
Capital and reserves			
Called up share capital	7.1	**12**	12
Share premium account		**548**	548
Other reserves	7.2	**(62)**	(77)
Profit and loss account		**3,642**	2,307
Total shareholders' funds		**4,140**	2,790

The Company's profit for the year was £1,505m (2019: £14m).

The financial statements on pages 234 to 240 were approved by the Board of Directors on 19 November 2020 and are signed on its behalf by:

Jonathan Howell
Chief Financial Officer

Company statement of changes in equity

	Called up share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m	Total equity £m
	Attributable to owners of the parent				
At 1 October 2019	**12**	**548**	**(77)**	**2,307**	**2,790**
Profit for the year	**–**	**–**	**–**	**1,505**	**1,505**
Total comprehensive income for the year ended 30 September 2020	**–**	**–**	**–**	**1,505**	**1,505**
Transactions with owners:					
Employee share option scheme:					
• Value of employee services	**–**	**–**	**–**	**29**	**29**
Utilisation of treasury shares	**–**	**–**	**22**	**(22)**	**–**
Proceeds of issuance of treasury shares	**–**	**–**	**–**	**9**	**9**
Share Buyback Programme	**–**	**–**	**(7)**	**–**	**(7)**
Dividends paid to owners of the parent	**–**	**–**	**–**	**(186)**	**(186)**
Total transactions with owners for the year ended 30 September 2020	**–**	**–**	**15**	**(170)**	**(155)**
At 30 September 2020	**12**	**548**	**(62)**	**3,642**	**4,140**

	Called up share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m	Total equity £m
	Attributable to owners of the parent				
At 1 October 2018	12	548	(94)	2,456	2,922
Profit for the year	–	–	–	14	14
Total comprehensive income for the year ended 30 September 2019	–	–	–	14	14
Transactions with owners:					
Employee share option scheme:					
• Value of employee services	–	–	–	32	32
Utilisation of treasury shares	–	–	17	(17)	–
Proceeds of issuance of treasury shares	–	–	–	3	3
Dividends paid to owners of the parent	–	–	–	(181)	(181)
Total transactions with owners for the year ended 30 September 2019	–	–	17	(163)	(146)
At 30 September 2019	12	548	(77)	2,307	2,790

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 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
The UK is the home country of The Sage Group plc. (a public company limited by shares). 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)	2020 number	2019 number
By segment:		
Northern Europe	25	27

Staff costs (including Directors on service contracts)	2020 £m	2019 £m
Wages and salaries	4	6
Social security costs	1	2
	5	8

Staff costs are net of recharges to other Group companies.

Auditor's remuneration
The audit fees payable in relation to the audit of the financial statements of the Company are £39,000 (2019: £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 120 to 148.

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 through the profit and loss account. Intergroup recharges to the employing subsidiary, up to the fair value of awards made to employees of that subsidiary, subsequently reverse the decrease to the profit and loss account.

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 Company only enters into basic financial instrument transactions that result in the recognition of basic financial assets and liabilities, including trade and other receivables and payables and loans to and from related parties. These transactions are initially recorded at transaction price, unless the arrangement constitutes a financing transaction where the transaction is measured at the present value of the future receipt discounted at a market rate of interest, and subsequently recognised at amortised cost.

Financial assets

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in comprehensive income or expense.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Financial liabilities

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expired.

Dividends

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

Employee benefit trust

The Company's employee benefit trust is considered an extension of the Company and therefore forms part of these financial statements.

Notes to the Company financial statements

1 Dividends

	2020 £m	2019 £m
Final dividend paid for the year ended 30 September 2019 of 11.12p per share	**121**	–
(2019: final dividend paid for the year ended 30 September 2018 of 10.85p per share)	**–**	118
Interim dividend paid for the year ended 30 September 2020 of 5.93p per share	**65**	–
(2019: interim dividend paid for the year ended 30 September 2019 of 5.79p per share)	**–**	63
	186	181

In addition, the Directors are proposing a final dividend in respect of the financial year ended 30 September 2020 of 11.32p per share which will absorb an estimated £124m of shareholders' funds. The Company's distributable reserves are sufficient to support the payment of this dividend. If approved at the AGM, it will be paid on 11 February 2021 to shareholders who are on the register of members on 15 January 2021. These financial statements do not reflect this proposed dividend payable.

2 Fixed assets: investments

Equity interests in subsidiary undertakings are as follows:

	£m
Cost	
At 30 September 2019	3,224
At 30 September 2020	**3,224**
Provision for diminution in value	
At 30 September 2019	136
At 30 September 2020	**136**
Net book value	
At 30 September 2020	**3,088**
At 30 September 2019	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 2020, 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.

3 Cash at bank and in hand

	2020 £m	2019 £m
Cash at bank and in hand	**12**	2

4 Debtors

	2020 £m	2019 £m
Prepayments and accrued income	**1**	1
Other debtors	**–**	2
Amounts owed by Group undertakings	**1,195**	1,117
	1,196	1,120

Of amounts owed by Group undertakings £nil (2019: £418m) is due greater than one year.

5 Trade and other payables

	2020 £m	2019 £m
Amounts owed to Group undertakings	**151**	1,414
Accruals and deferred income	**5**	6
	156	1,420

Amounts owed to Group undertakings are unsecured and attract a rate of interest of 0.0% and LIBOR plus 1.5% (2019: 0.0% and 6.8%).

6 Obligations under operating leases

	2020	2019
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	**3**	2
Later than one year and less than five years	**13**	5
After five years	**18**	20
	34	27

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

7 Equity

7.1 Called up share capital

Issued and fully paid ordinary share of $1^{4/77}$ pence each	2020 shares	2020 £m	2019 shares	2019 £m
At 1 October and 30 September	**1,120,789,295**	**12**	1,120,789,295	12

7.2 Other reserves

	Treasury shares £m	Merger reserve £m	Capital redemption reserve £m	Total other reserves £m
At 1 October 2019	**(140)**	**61**	**2**	**(77)**
Utilisation of treasury shares	**22**	**–**	**–**	**22**
Share Buyback Programme	**(7)**	**–**	**–**	**(7)**
At 30 September 2020	**(125)**	**61**	**2**	**(62)**

	Treasury shares £m	Merger reserve £m	Capital redemption reserve £m	Total other reserves £m
At 1 October 2018	(157)	61	2	(94)
Utilisation of treasury shares	17	–	–	17
At 30 September 2019	(140)	61	2	(77)

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 purchased 1,101,918 under the Share Buyback Programme (2019: none).

During the year the Group agreed to satisfy the vesting of certain share awards, utilising a total of 4,956,977 (2019: 3,781,720) treasury shares. The Group gifted 250,000 shares (2019: nil) to the Employee Share Trust.

At 30 September 2020 the Group held 27,844,111 (2019: 31,699,170) 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 190,962 ordinary shares in the Company (2019: 35,792) at a cost of £1m (2019: £nil) and a nominal value of £nil (2019: £nil).

During the year, the Trust agreed to satisfy the vesting of certain share awards, utilising a total of 94,830 (2019: 368,733) shares held in the Trust. The Trust received £nil (2019: £2m) additional funds for future purchase of shares in the market.

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 2020 was £1m (2019: £nil).

Non-GAAP measures

<table>
<tr><th>Measure</th><th>Description</th><th>Rationale</th></tr>
<tr><td>Underlying (revenue and profit) measures</td><td>Underlying measures are adjusted to exclude items which would distort the understanding of the performance for the year or comparability between periods:
Recurring items include 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.</td><td>Underlying measures allow management and investors to compare performance without the potentially distorting effects of foreign exchange movements, one-off 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.</td></tr>
<tr><td>Organic (revenue and profit) measures</td><td>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
Exclude the contribution from acquired businesses until the year following the year of acquisition; and
Adjust the comparative period to present prior period acquired businesses as if they had been part of the Group throughout the prior period.
Acquisitions and disposals where the revenue and contribution impact would be immaterial are not adjusted.</td><td>Organic measures allow management and investors to understand the like-for-like revenue and current period margin performance of the continuing business.</td></tr>
<tr><td>Underlying Cash Flow from Operations</td><td>Underlying Cash Flow from Operations is Underlying Operating Profit adjusted for non-cash items, net capex (excluding business combinations and similar items) and changes in working capital.</td><td>To show the cash flow generated by the operations and calculate underlying cash conversion.</td></tr>
<tr><td>Underlying Cash Conversion</td><td>Underlying Cash Flow from Operations divided by Underlying (as reported) Operating Profit.</td><td>Cash conversion informs management and investors about the cash operating cycle of the business and how efficiently operating profit is converted into cash.</td></tr>
<tr><td>EBITDA</td><td>EBITDA is Underlying Operating Profit excluding depreciation, amortisation and share-based payments.</td><td>To calculate the Net Debt to EBITDA leverage ratio and to show profitability before the impact of major non-cash charges.</td></tr>
<tr><td>Annualised recurring revenue</td><td>Annualised recurring revenue (“ARR”) is the normalised organic recurring revenue in the last month of the reporting period, adjusted consistently period to period, multiplied by 12. 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).</td><td>ARR represents the annualised value of the recurring revenue base that is expected to be carried into future periods, and its growth is a forward-looking indicator of reporting recurring revenue growth.</td></tr>
<tr><td>Renewal Rate by Value</td><td>The ARR from renewals, migrations, upsell and cross-sell of active customers at the start of the year, divided by the opening ARR for the year.</td><td>As an indicator of our ability to retain and generate additional revenue from our existing customer base through up- and cross-sell.</td></tr>
</table>

Glossary *continued*

Measure	Description	Rationale
Free Cash Flow	Free Cash Flow is Cash Flow from Operations minus non-recurring cash items, interest paid, tax paid and adjusted for profit and loss foreign exchange movements.	To measure the cash generated by the operating activities during the period that is available to repay debt, undertake acquisitions or distribute to shareholders.
% Subscription Penetration	Organic software subscription revenue as a percentage of organic total revenue.	To measure the progress of migrating our customer base from licence and maintenance to a subscription relationship.
% Sage Business Cloud Penetration	Organic recurring revenue from the Sage Business Cloud (native and connected cloud) as a percentage of the organic recurring revenue of the Future Sage Business Cloud Opportunity.	To measure the progress in the migration of our revenue base to the Sage Business Cloud by connecting our solutions to the cloud and/or migrating our customers to cloud connected and cloud native solutions.
Return on Capital Employed (ROCE)	ROCE is calculated as: • Underlying Operating Profit; minus • Amortisation of acquired intangibles; the result being divided by • 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 (i.e. capital employed).	As an indicator of the current period financial return on the capital invested in the Company. ROCE is used as an underpin in the FY19 and FY20 PSP awards.

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 over a contractual term, with the customer being unable to continue to benefit from the full functionality of the good or service without ongoing payments. Subscription revenue is recurring revenue earned from customers for the provision of a good or service over a contractual term. In the event that the customer stops paying, they lose the legal right to use the software and the Group has the ability to restrict the use of the product or service. Subscription revenue and maintenance and support revenue are usually recognised on a straight-line basis over the term of the contract as control is transferred to the customer (including non-specified upgrades, when included). An exception is revenue from term licences embedded within a subscription contract for software with significant standalone functionality which are expected to recur upon renewal of the subscription offering. Revenue for these term licences is recognised when control is transferred at inception of each subscription contract period.
Other revenue Software and software-related services • Perpetual software licences • Upgrades to perpetual licences • Professional services • Training • Hardware and stationery	Perpetual software licences with significant standalone functionality and specified upgrades revenue are recognised when the control relating to the licence has been transferred. 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.

AGM
Annual General Meeting

API
Application Program Interface

CAGR
Compound Annual Growth Rate

CDP
Carbon Disclosure Project

CFO
Chief Financial Officer

CGU
Cash Generating Unit

CRM
Customer Relationship Management

DTR
Disclosure Guidance and Transparency Rules

EBITDA
Earnings Before Interest Taxes Depreciation and Amortisation

EBT
Employee Benefit Trust

ED
Executive Director

EPS
Earnings Per Share

ERP
Enterprise Resource Planning

EU
European Union

FCF
Free Cash Flow

FY17
Financial year ending 30 September 2017

FY18
Financial year ending 30 September 2018

FY19
Financial year ending 30 September 2019

FY20
Financial year ending 30 September 2020

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

NED
Non-Executive Director

NPS
Net Promoter Score

PBT
Profit Before Tax

PSP
Performance Share Plan

R&D
Research and Development

SBC
Sage Business Cloud

SaaS
Software as a Service

SSRS
Software & Software Related Services

TSR
Total Shareholder Return

Shareholder information

Financial calendar

Annual General Meeting	4 February 2021
Dividend payments	
FY20 Final payable	11 February 2021
H1 FY21 Interim payable[1]	11 June 2021
Results announcements	
Q1 FY21 Trading update	21 January 2021
H1 FY21 Interim results	12 May 2021
Q3 FY21 Trading update	29 July 2021
FY21 Full Year results	17 November 2021

Note:

1. Please note that this date is provisional and subject to change. Please access our financial calendar on sage.com, which is updated regularly.

Shareholder information online

Equiniti, the registrar of The Sage Group plc., 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 Sage's full year results, Equiniti can notify you by email and you will be able to access, read and print documents at your convenience.

To take advantage of this service, please go to www.shareview.co.uk, where full details of the shareholder portfolio services 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 decide at a later date that you do not want to receive these emails, you may amend your request by accessing 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.

Stay up to date at www.sage.com

Annual General Meeting of Shareholders

We consider the Annual General Meeting of shareholders (AGM) to be an important event in our calendar and a significant opportunity to engage with our shareholders. The 2021 AGM will be held on 4 February 2021. Further details will be set out in the Notice of AGM and on our website at sage.com.

Advisors

Corporate brokers and financial advisors

Citigroup Global Markets Limited,
Citigroup Centre,
33 Canada Square,
Canary Wharf,
London, E14 5LB

Morgan Stanley & Co. International plc,
25 Cabot Square,
Canary Wharf,
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Registrars

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www.shareview.co.uk

Tel: 0371 384 2859
(from outside the UK: +44 (0)121 415 7047)

Lines are open 8.30am to 5.30pm UK time, Monday to Friday.

Information for investors

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

Investor enquiries

Enquiries can be directed via our website or by contacting our Investor Relations department:

Tel: +44 (0)191 294 3457

The Sage Group plc.

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Company number 2231246

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