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Group financial statements

Opinion

In our opinion:

- The Sage Group plc's Group financial statements and Parent Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 September 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

As explained in note 1 to the consolidated financial statements, the Group, in addition to applying IFRS as adopted by the European Union, has also applied IFRS as issued by the International Accounting Standards Board (IASB). In our opinion, the consolidated financial statements 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 2019	Parent Company balance sheet as at 30 September 2019
Consolidated income statement for the year then ended	Parent 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 19 to the financial statements, including a summary of significant accounting policies	

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

Basis for opinion

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

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

Conclusions relating to principal risks, going concern and viability statement

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

- the disclosures in the Annual Report set out on pages 58 to 63 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 58 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 124 in the Directors' Report 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 64 to 65 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 – First time application of IFRS 15 – Recoverability of goodwill and other intangible assets allocated to the Intacct cash generating unit ('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 95% of adjusted Profit before tax* and 89% of Revenue.
Materiality	– Overall group materiality of £18.8m which represents 5% of adjusted Profit before tax*.

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

Key audit matters

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

Key audit matter

Revenue recognition

The Group has reported revenues of £1,936m (FY18: £1,846m) with deferred revenue at 30 September 2019 of £645m (FY18: £626m).

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 judgment is that the level of risk in this area remains consistent with the prior year.

We have not made significant changes to our audit response compared to the prior year other than the extension of the use of data analysis at certain component locations.

Refer to the Audit and Risk Committee Report (page 89). Revenue recognition is disclosed in notes 2.1 and 3.1 of the consolidated financial statements and relevant accounting policies in note 3.1.

Our audit response

We performed full or specific scope audit procedures over this risk area in 8 components with significant revenue streams, which covered 89% of the Group's revenue.

Revenue recognition continued

Area of audit focus	Audit Response
Walkthroughs and controls	– We performed walkthroughs of each significant class of revenue transactions and assessed the design effectiveness of key controls. – For 2 components, we tested the operating effectiveness of 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. This included the assessment of new or one-off transactions.
	– For products and services where revenue is earned over a contractual term, we:
	  – tested a sample of transactions to ensure 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 revenue.
	– We performed cut-off testing around the year-end.
	– Where practicable, at certain components we extended the use of data analysis in the current year. Our procedures involved testing full populations of transactions, including correlation analysis between invoiced revenue, receivables and cash, as well as analysis of credit notes.
	– We performed tests of details and analytical procedures to validate the recognition of revenue throughout the year.
	– We performed a search for revenue recorded through journal entries outside of normal business processes. We investigated any unusual items to establish whether a service had been provided or a sale had occurred in the financial year to support the revenue recognised.

Measurement of revenue attributed to products and services provided	– For bundled products, we tested on a sample basis, that (1) the calculation of the fair value attributed to each element of the bundle was reasonable, and (2) that the allocation of any discount was consistent with the relative fair value of each element of the bundle. – We performed other tests of details and analytical procedures to validate the measurement of revenue throughout the year.
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.
Disclosures	– We also considered the adequacy of the Group's disclosures relating to revenue recognition in notes 1 (critical accounting estimates and judgments) and note 3.1 (Revenue).

Key observations communicated to the Audit and Risk Committee

Based on procedures performed, we did not identify any evidence of material misstatement in the revenue recognised in the year.

Key audit matter

First time application of IFRS 15

The Group adopted IFRS 15 *Revenue from Contracts with Customers* ('IFRS 15') from 1 October 2018 and applied the modified retrospective method to recognise the effect of the transition in equity at this date. The transition adjustment as at 1 October 2018 resulted in an increase to the Group's net assets of £24 million, as described in note 17 to the consolidated financial statements.

The application of IFRS 15 is complex and involves management judgment and estimation. For Sage this complexity is increased as a result of diversity in both the products and services offered by the Group and the sales channels.

The principal risk is that the transition adjustment at 1 October 2018, and subsequently revenue recognised in the income statement in the year ended 30 September 2019, is not materially correct. This may result from an inappropriate or incomplete analysis of the effects of IFRS 15 on Sage's revenue recognition. The Group's systems are not yet fully configured to record the adjustments for IFRS 15 and therefore a number of manual calculations and adjustments are required.

Disclosure is required of the effect of the first time application of IFRS 15 and of FY19 financial information to reflect what would have been reported under IAS 18 *Revenue*.

We consider that the risk profile has increased in the current year as IFRS 15 is the basis for recognising the Group's revenue in FY19, as compared to disclosure on the expected impact of the initial application of IFRS 15 in the prior year.

Refer to the Audit and Risk Committee Report (page 92). The first time application of IFRS 15 is disclosed in note 17 to the consolidated financial statements and the relevant accounting policies in note 3.1. The disclosure of what would have been reported in FY19 under IAS 18 is in note 17.

Our audit response

As described in our 2018 auditor's report, procedures were performed as part of the prior year audit to gain assurance over the disclosures on the expected impact of the initial adoption of IFRS 15 as at 1 October 2018. In the prior year audit, procedures were performed by the Primary Team as well as testing at a component level by all full and specific scope components with significant revenue streams (8 components). There have been no significant changes to the transition adjustments since these procedures were performed.

Procedures over the application of the Group's IFRS 15 accounting policies in the year ended 30 September 2019 were performed in conjunction with the testing of revenue recognition at all full and specific scope audit components with significant revenue streams (8 components which covered 89% of the Group's revenue). Our audit approach for the adjustments to reflect the effects of IFRS 15 are substantive in nature across all components.

Area of audit focus	Audit Response
Transition adjustments to reflect initial adoption of IFRS 15 as at 1 October 2018	Our procedures in respect of the transition adjustments for the initial adoption of IFRS 15 were principally performed as part of the prior year audit (and reported as a key audit matter in the 2018 auditor's report). At a Group level, these procedures included: – Appraising the revisions to the Group's revenue recognition accounting policy under IFRS 15, including both its technical appropriateness and its completeness in reflecting the diversity of the Group's products and services. – Evaluating the impact analysis and the accounting judgments made based on the characteristics of the Group's products and their method of delivery to customers. – Assessing the appropriateness of the methods used to determine the estimated impact of the initial application of IFRS 15. As part of the prior year audit, we instructed component audit teams in all full and specific scope locations with significant revenue streams to perform: – audit procedures on a sample basis to test the accuracy and completeness of local management's analysis of product types, contract terms and sales channel mechanisms; and – substantive testing to gain assurance on the quantitative impact of the transition to IFRS 15 at each location. As part of the FY19 audit, we assessed the results of our audit procedures on revenue recognised in the year ended 30 September 2019 for indications that the assessment and calculation of the transition adjustment was inappropriate.

First time application of IFRS 15 continued

Area of audit focus	Audit Response
Application of the Group's IFRS 15 accounting policies in the year ended 30 September 2019 (FY19)	Component audit teams in all full and specific scope locations with significant revenue streams (8 components) performed: – Analysis of products sold and ways of selling these in the year to assess whether there are changes that would require further assessment with respect to the requirements of IFRS 15 and the Group's updated accounting policies for revenue recognition; and – Substantive testing to gain assurance on the adjustments posted to reflect the application of the Group's updated IFRS 15 accounting policy on FY19 revenue including: – the measurement of adjustments to revenue recognised in the year in respect of the recognition and deferral of revenue for on-premise subscription products; – the assessment of whether business partners represent customers of the Group in the sale of product and services and the related classification of amounts payable to business partners; – the recognition or deferral of non-refundable contract sign-up fees; and – the capitalisation and amortisation of costs incurred in order to acquire customer contracts.
Disclosures in the first year of application as required by IFRS 15 Appendix C.	– We assessed whether these disclosures, including the Group's accounting policy for revenue under IFRS 15, were complete and consistent with the results of our testing of the effects of adoption, both qualitatively and quantitively.

Key observations communicated to the Audit and Risk Committee

Based on the procedures performed, we concluded that management's adoption of IFRS 15, including the specific considerations around the recognition and presentation of revenue under this standard is appropriate. We did not identify any significant new revenue matters requiring consideration beyond those identified at adoption.

Key audit matter

Recoverability of goodwill and other intangible assets allocated to the Intacct CGU

Goodwill of £2,098 million is recognised in the Group's consolidated balance sheet at 30 September 2019. Included in this balance is the North America Intacct Cash Generating Unit ('CGU') goodwill of £479 million, as at 30 June 2019, the date of the Group's annual goodwill impairment test. In addition, other intangible assets of £137 million are recognised within the Intacct CGU at 30 June 2019.

We focused on this CGU as the director's assessment of its 'value in use' involves estimation about the future performance of the business, particularly as Intacct has been recently acquired, is currently loss making and is in a period of growth. Furthermore, estimation is required in determining the discount rate to be applied to the forecasts of future cash flows.

In addition, for the Intacct CGU:

– forecasts for a nine-year period are applied to reflect the ongoing investment in new customer acquisition; and

– the recoverable value is sensitive to reasonably possible changes in certain key assumptions.

There is no change in the risk profile in the current year.

Our audit response to this risk is consistent with the prior year.

Refer to the Audit and Risk Committee Report (page 92). Management's assessment of the estimation required is set out in note 1 to the consolidated financial statements, with results of management's assessment of the recoverability of goodwill in note 6.1.

Recoverability of goodwill and other intangible assets allocated to the Intacct CGU

Our audit response

The recoverability of the goodwill balance carried by the North America Intacct CGU of the Group was subject to full scope audit procedures performed by the Primary audit team with support from the Intacct component audit team on certain procedures.

Area of audit focus	Audit Response
Valuation model	– We tested the methodology applied in the value in use calculation as compared to the requirements of IAS 36, Impairment of Assets, including the appropriateness of the forecast period, and the mathematical accuracy of management's model. – We have evaluated management's forecasting for Intacct through comparison of actual performance to budget since acquisition.
Key assumptions in the valuation	– We evaluated the key underlying assumptions used in the valuation including growth rates, margin and the discount rate applied. – We assessed the appropriateness of the key assumptions used in the FY20 forecast including new customer acquisition, upsell/add-ons and level of churn by assessing these against the results achieved in FY19 and the prior track record of growth. – For forecasts for FY21-FY23, we considered the latest market trends to evaluate whether there is any evidence that the forecast growth rates assumed for this period should be lower than the current growth rate. – We assessed whether there are any contra indicators, such as new market entrants or new technology, which may indicate that the forecast revenue growth for FY24-FY28 will not be realised. – With assistance from EY valuation specialists, we performed audit procedures on the reasonableness of the discount rate and long-term growth rate used by management, including comparison to economic and industry forecasts where appropriate. – 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. – We performed downside sensitivity analyses on key assumptions in the model, 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 Group financial statements, in particular the disclosure of the forecast period used in the value in use calculation and sensitivity disclosures.

Key observations communicated to the Audit and Risk Committee

Whilst the discount rate used by management was below the lower end of EY's determined range for Intacct, applying a discount rate at the top-end of our range would not erode all the headroom in the value in use calculation. Accordingly, we agree with management's conclusion that no impairment of Intacct goodwill is required in the current year.

We agree with management that additional sensitivity disclosures are required in note 6.1 of the Group financial statements on the basis that a reasonably possible change in certain key assumptions could lead to a different conclusion in respect of the recoverability of goodwill. The variables to which the goodwill is most sensitive are the revenue growth rate assumptions and the discount rate applied.

The disclosures of sensitivities which would cause the headroom to be reduced to £nil reflect management's discount rate. We reported to the Audit and Risk Committee our sensitivities which considered the mid-point of the EY range as a starting point. We do not consider the differences between these sensitivities to be material.

The current year key audit matters are consistent with prior year except for:

- the risk with respect to IFRS 15 has changed from disclosure of the impact of IFRS 15 adoption in FY18 to implementation of the standard in FY19, and
- the allocation of Intacct goodwill is no longer relevant, this being finalised in the prior year.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as 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 20 components of the Group, we identified 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, Brazil and South Africa.

Of the 11 components identified, 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. For the remaining 9 components, audit procedures were undertaken as set out below to respond to any potential risks of material misstatement to the Group financial statements.

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

	2019				2018		
Reporting components	Number	% Group adjusted Profit before tax*	% Group Revenue	Note	Number	% Group adjusted Profit before tax	% Group Revenue
Full scope	6	77%	61%	1,2	6	81%	60%
Specific scope	5	18%	28%	2,3	5	19%	29%
Full and specific scope coverage	**11**	**95%**	**89%**		**11**	**100%**	**89%**
Remaining components	9	5%	11%	4	10	0%	11%
Total Reporting components	**20**	**100%**	**100%**		**21**	**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 CGU was subject to audit procedures by the Primary audit team on the entire balance, with support from the Intacct component audit team on certain procedures.
3. Specific scope components are Brazil, 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 9 components contributed a net 5% 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 Asia, Australia, Middle East, Sage People and Switzerland, the Primary audit team performed review scope procedures, including analytical review and inquiries of component management (FY18: 3 components being Asia, Australia and Middle East). In addition, the Primary team performed specified procedures on pension related balances in Switzerland. For the remaining 4 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 21 to 20 results from the disposal of the North America payroll business.

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, the Primary audit team performed audit procedures directly on 3, with the remaining 3 being performed by component audit teams. For the 3 full scope components and the 5 specific scope components where the work was performed by component auditors, we were responsible for the scoping and direction of the audit process and 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.

The Group audit team followed a programme of planned visits that was designed to ensure that the Senior Statutory Auditor, or another Group audit partner, would visit all full scope and select specific scope components. During the current year's audit cycle, visits were undertaken at least once by the primary audit team to the component teams in UKI, France, North America Sage Business Solutions Division, North America Intacct, Spain, and South Africa. These visits involved discussing with the component team their audit approach and any issues arising from their work, reviewing key audit working papers on the Group's audit risk areas, and meeting with local management to discuss the component's business performance and matters relating to the local finance organisation including the internal financial control environment. The Primary team interacted regularly with all component teams during various stages of the audit, attended closing meetings and reviewed those working papers considered necessary to conclude we had obtained sufficient appropriate audit evidence. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

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

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 £18.8 million (2018: £20.4 million), which is 5% (2018: 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 to the right.

Starting basis	Total profit before tax of £361m
Adjustments	Adjustments for non-recurring items: – Gain on disposal of subsidiary (£28m) – Property restructuring costs £16m – Impairment of assets held for sale £14m – Office relocation £12m
Materiality	Total £375m Materiality of £18.8m (5% of materiality basis)

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.

We determined materiality for the Parent Company to be £27.9 million (2018: £28.7 million), which is 1% (2018: 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.

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 assessment together with our assessment of the Group's overall control environment, our judgment was that performance materiality should be 50% (2018: 50%) of our planning materiality, namely £9.4m (2018: £10.2m). For the current year our judgment is that the percentage applied in calculating performance materiality should remain at 50%. This reflects prior year audit experience and the maturity of the finance organisation and internal financial control environment.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £0.9m to £6.3m (2018: £1.0m to £5.7m).

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 £0.9m (2018: £1.0m), 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 128, 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 128** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit and Risk Committee reporting set out on page 89** – 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 70** – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 128, 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.
- 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; 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 on 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 programs 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 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 27 February 2019 to audit the financial statements for the year ended 30 September 2019 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is five years, covering the years ended 30 September 2015, 30 September 2016, 30 September 2017, 30 September 2018 and 30 September 2019.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit and Risk Committee.

Use of our report

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

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

19 November 2019

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 2019

	Note	**Underlying 2019 £m**	**Adjustments (note 3.6) 2019 £m**	**Statutory 2019 £m**	Underlying as reported* 2018 £m	Adjustments (note 3.6) 2018 £m	Statutory 2018 £m
Revenue	2.1, 3.1	**1,936**	**–**	**1,936**	1,857	(11)	1,846
Cost of sales		**(138)**	**–**	**(138)**	(130)	–	(130)
Gross profit		**1,798**	**–**	**1,798**	1,727	(11)	1,716
Selling and administrative expenses		**(1,350)**	**(66)**	**(1,416)**	(1,223)	(66)	(1,289)
Operating profit	2.2, 3.2, 3.3, 3.6	**448**	**(66)**	**382**	504	(77)	427
Finance income	3.5	**6**	**2**	**8**	4	1	5
Finance costs	3.5	**(29)**	**–**	**(29)**	(33)	(1)	(34)
Profit before income tax		**425**	**(64)**	**361**	475	(77)	398
Income tax expense	4	**(116)**	**21**	**(95)**	(123)	20	(103)
Profit for the year		**309**	**(43)**	**266**	352	(57)	295
Profit attributable to:							
Owners of the parent		**309**	**(43)**	**266**	352	(57)	295
Earnings per share attributable to the owners of the parent (pence)							
– Basic	5	**28.40p**		**24.49p**	32.51p		27.21p
– Diluted	5	**28.17p**		**24.29p**	32.35p		27.07p

All operations in the year relate to continuing operations.

Note:

* Underlying as reported is at 2018 reported exchange rates.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September 2019

	Note	2019 £m	2018 £m
Profit for the year		**266**	295
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)**	–
Deferred tax charge on actuarial loss on post-employment benefit obligations	4, 14.4	**–**	–
		(1)	–
Items that may be reclassified to profit or loss:			
Gain on available-for-sale fixed asset investment*	13.1	**–**	1
Exchange differences on translating foreign operations	14.3	**42**	15
Exchange differences recycled through income statement on sale of foreign operations	14.3	**(4)**	–
		38	16
Other comprehensive income for the year, net of tax		**37**	16
Total comprehensive income for the year		**303**	311
Total comprehensive income for the year attributable to:			
Owners of the parent		**303**	311

* See note 1 for detail on transition to IFRS 9 and the disposal of the available-for-sale fixed asset investment during the year ended 30 September 2019.

CONSOLIDATED BALANCE SHEET
As at 30 September 2019

	Note	2019 £m	2018 £m
Non-current assets			
Goodwill	6.1	**2,098**	2,008
Other intangible assets	6.2	**228**	260
Property, plant and equipment	7	**117**	129
Fixed asset investment	13.1	**–**	17
Other financial assets		**4**	1
Trade and other receivables	8.1	**73**	2
Deferred income tax assets	11	**31**	51
		2,551	2,468
Current assets			
Trade and other receivables	8.1	**364**	460
Current income tax asset		**3**	4
Cash and cash equivalents (excluding bank overdrafts)	12.3	**371**	272
Assets classified as held for sale	15.3	**63**	113
		801	849
Total assets		**3,352**	3,317
Current liabilities			
Trade and other payables	8.2	**(291)**	(249)
Current income tax liabilities		**(32)**	(39)
Borrowings	12.4	**(122)**	(8)
Provisions	9	**(11)**	(26)
Deferred income	8.3	**(637)**	(620)
Liabilities classified as held for sale	15.3	**(33)**	(63)
		(1,126)	(1,005)
Non-current liabilities			
Borrowings	12.4	**(643)**	(913)
Post-employment benefits	10	**(25)**	(22)
Deferred income tax liabilities	11	**(24)**	(25)
Provisions	9	**(15)**	(11)
Trade and other payables		**(7)**	(8)
Deferred income	8.3	**(8)**	(6)
		(722)	(985)
Total liabilities		**(1,848)**	(1,990)
Net assets		**1,504**	1,327
Equity attributable to owners of the parent			
Ordinary shares	14.1	**12**	12
Share premium		**548**	548
Other reserves	14.3	**184**	146
Retained earnings		**760**	621
Total equity		**1,504**	1,327

The consolidated financial statements on pages 140 to 205 were approved by the Board of Directors on 19 November 2019 and are signed on their behalf by:

Jonathan Howell
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 September 2019

	Note	Ordinary shares £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
		Attributable to owners of the parent				
At 1 October 2018 as originally presented		**12**	**548**	**146**	**621**	**1,327**
Adjustment on initial application of IFRS 15 net of tax	17	**–**	**–**	**–**	**24**	**24**
Adjustment on initial application of IFRS 9 net of tax	1	**–**	**–**	**–**	**(5)**	**(5)**
At 1 October as adjusted		**12**	**548**	**146**	**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**	**184**	**760**	**1,504**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 September 2018

	Note	Ordinary shares £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
		Attributable to owners of the parent				
At 1 October 2017		12	548	131	477	1,168
Profit for the year		–	–	–	295	295
Other comprehensive income/(expense):						
Exchange differences on translating foreign operations	14.3	–	–	15	–	15
Gain on available-for-sale fixed asset investment	13.1, 14.4	–	–	–	1	1
Total comprehensive income for the year ended 30 September 2018		–	–	15	296	311
Transactions with owners:						
Employee share option scheme:						
– Value of employee services, net of deferred tax	14.4	–	–	–	16	16
– Proceeds from issuance of treasury shares	14.4	–	–	–	3	3
– Dividends paid to owners of the parent	14.4, 14.5	–	–	–	(171)	(171)
Total transactions with owners for the year ended 30 September 2018		–	–	–	(152)	(152)
At 30 September 2018		12	548	146	621	1,327

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 September 2019

	Note	2019 £m	2018 £m
Cash flows from operating activities			
Cash generated from continuing operations	12.1	**586**	487
Interest paid		**(26)**	(30)
Income tax paid		**(88)**	(64)
Net cash generated from operating activities		**472**	393
Cash flows from investing activities			
Acquisitions of subsidiaries, net of cash acquired	15.1	**(41)**	(8)
Investment in non-current asset		**(3)**	–
Disposal of subsidiaries, net of cash disposed	15.3	**70**	–
Proceeds on settlement of equity investment		**17**	–
Purchases of intangible assets	6.2	**(15)**	(36)
Purchases of property, plant and equipment	7	**(27)**	(20)
Proceeds from sale of property, plant and equipment		**–**	2
Interest received	3.5	**6**	4
Net cash generated from/(used in) investing activities		**7**	(58)
Cash flows from financing activities			
Proceeds from issuance of treasury shares		**3**	3
Proceeds from borrowings		**414**	330
Repayments of borrowings		**(594)**	(389)
Movements in cash held on behalf of customers		**(78)**	2
Borrowing costs		**(1)**	(3)
Dividends paid to owners of the parent	14.5	**(181)**	(171)
Net cash used in financing activities		**(437)**	(228)
Net increase in cash, cash equivalents and bank overdrafts (before exchange rate movement)		**42**	107
Effects of exchange rate movement	12.2	**8**	2
Net increase in cash, cash equivalents and bank overdrafts		**50**	109
Cash, cash equivalents and bank overdrafts at 1 October	12.2	**322**	213
Cash, cash equivalents and bank overdrafts at 30 September	12.2	**372**	322

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.

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

New or amended accounting standards.

There are no IFRS, IAS amendments or IFRIC interpretations effective for the first time this financial year that have had a material impact on the Group with the exception of the adoption of IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers", the impact of which has been detailed below.

IFRS 9

The Group has adopted IFRS 9 "Financial Instruments" from 1 October 2018 and applied the modified retrospective approach. Comparatives for 2018 have not been restated and the cumulative impact of adoption has been recognised as a decrease to retained earnings with a corresponding decrease in net assets as at 1 October 2018 as follows:

	1 October 2018 £m
Retained earnings	
Provision for losses against trade debtors	(6)
Tax impact	1
Total impact at 1 October 2018	(5)
Non-current assets	
Deferred income tax asset	1
Current assets	–
Trade and other receivables	(6)
Total impact at 1 October 2018	(5)

The adjustment above arises from adoption of IFRS 9's simplified approach to providing for lifetime expected credit losses at the date of initial recognition of trade receivables. Previously under IAS 39 an impairment allowance for credit losses was not recognised until there was an indicator of impairment. Under IFRS 9, the Group uses a matrix approach to determine the credit loss provisions, with default rates assessed for each country in which the Group operates.

The Group continues to apply the hedge accounting requirements of IAS 39 instead of those in IFRS 9.

IFRS 9 made changes to the classification and measurement requirements for financial assets compared to IAS 39. These did not have any significant impact on the balances reported by the Group. The changes applicable to the Group are:

- Trade receivables and other financial assets were classified as loans and receivables under IAS 39. Under IFRS 9, they are classified and measured as financial assets held at amortised cost because they are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. This did not result in any change in the carrying amount or presentation of these balances.
- On transition to IFRS 9, the Group elected to classify its unquoted equity investment, which is presented in the balance sheet as a fixed asset investment, as at fair value through other comprehensive income. The investment has since been derecognised on its redemption in the year ended 30 September 2019. The investment had previously been classified as an available-for-sale financial asset under IAS 39. The investment is carried at its fair value under both IAS 39 and IFRS 9 and as a result of the election made under IFRS 9, changes in the fair value of the investment prior to its derecognition continued to be recognised in the statement of other comprehensive income when they arose. However, in a change to the previous treatment, under IFRS 9 the cumulative gain was not reclassified to profit for the period when the investment was derecognised.

1 Basis of preparation and critical accounting estimates and judgements continued

The following table summarises these reclassifications:

As at 1 October 2018	Total balance under IAS 39 £m	IFRS 9 measurement category Amortised cost £m	Fair value through OCI £m
IAS 39 measurement category			
Loans and receivables			
Trade receivables*	370	364	–
Other financial assets	3	3	–
Available for sale			
Fixed asset investment	17	–	17
	390	367	17

* The change in carrying amount results from the increase in the provision for losses as explained above.

The change in the closing balance of allowances for impairment losses under IAS 39 to the opening loss allowances on adoption of IFRS 9 is as follows:

As at 1 October 2018	Allowance for impairment under IAS 39 £m	Remeasurement £m	Expected credit losses under IFRS 9 £m
Loans and receivables *under IAS 39* / financial assets held at amortised cost under IFRS 9	20	6	26

IFRS 15

As disclosed in our Annual Report 2018, the Group has adopted IFRS 15 retrospectively with the cumulative effect of initially applying the standard recognised on the date of initial application, being 1 October 2018 for the Group (the "cumulative catch up" approach) and the practical expedient to apply the standard only to contracts in progress but not completed at the date of initial application. Prior year comparatives are not restated and retained earnings at 1 October 2018 have been restated for the full cumulative impact of adopting the standard.

Information on the changes resulting from the adoption of IFRS 15, quantitative information on their impact at 1 October 2018 and a reconciliation for the year ending 30 September 2019 between the primary financial statements under IFRS 15 and the financial position and performance that would have been reported in accordance with IAS 18 are set out in note 17.

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 65.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future, for a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements, in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. Further details for adopting the going concern basis are set out in the Directors' Report on page 124.

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, which is usually assessed based on whether the business partner has responsibility for payment 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 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 its on-premise subscription offerings.

Goodwill impairment

A key judgement is the ongoing appropriateness of the cash-generating units ("CGUs") for the purpose of impairment testing. In the current year CGUs were assessed in the context of the Group's evolving business model, the Sage strategy and the shift to global product development. 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.

Classification and measurement of businesses held for sale

The Group's Brazilian and Sage Pay 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 and can be sold to a buyer in their current condition;
- The sales are expected to be completed within one year from the date of initial classification; and
- Potential buyers have been identified and negotiations are ongoing as at the reporting date.

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 its conclusions based on the bids received from potential buyers to date, the status of negotiations and its past experience of similar transactions.

For more details on the businesses held for sale, see note 15.3.

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 2019. The most significant of these is IFRS 16 "Leases", which has been endorsed for use in the EU and has been adopted by the Group with effect from 1 October 2019. IFRS 16 will have a significant effect on the Group's financial reporting and its impact is discussed below. Other new and revised accounting standards, interpretations or amendments that have been issued but are not yet effective for the Group are not expected to have a material impact on the consolidated financial statements when first applied.

IFRS 16

IFRS 16 is effective for the Group for the financial year commencing on 1 October 2019, replacing the existing lease accounting standard IAS 17. The new standard will impact the accounting for leases in which the Group is the lessee. The Group currently accounts for these leases as operating leases, with rentals payable charged to the income statement on a straight-line basis as an operating expense. Under the new standard, the Group will recognise additional lease assets and lease liabilities on the balance sheet to account for the right to use the leased items and the obligation to make future lease payments. The right of use asset will be presented within property, plant and equipment and the lease liabilities within current and non-current borrowings. The costs of most leases will be recognised in the income statement split between depreciation of the lease asset and a finance charge on the lease liability. Depreciation will be presented within selling and administrative expenses and finance charges within finance costs.

The Group will apply the modified retrospective approach to transition to IFRS 16 with the cumulative impact recognised in equity on 1 October 2019 and no restatement of the financial statements for the prior year. Under this approach, lease liabilities are measured at the present value of future lease payments discounted using the Group's incremental borrowing rate applicable to the currency and remaining term of each lease. Right of use assets are measured either as if IFRS 16 had been in place since the commencement of the lease or at an amount equal to the lease liability at adoption, adjusted for any existing prepaid or accrued lease payments. Measurement as if IFRS 16 had been in place since commencement of the lease is applied to the Group's property leases.

The Group's implementation of the new standard is substantially complete and data has been collected on all the leases to which the standard applies. The Group has elected to apply the exemptions available for short-term leases with a lease term of 12 months or less and leases of low value items. The leases to which these exemptions apply will be accounted for in the same way as current operating leases, with no lease assets or liabilities recognised. The low value exemption is expected to apply to most of the Group's leases of IT and other office equipment. On transition, the Group will make use of the following practical expedients available under the modified retrospective approach:

- For leases other than property leases, the Group will measure the right of use assets at an amount equal to the lease liability at adoption, adjusted for any existing prepaid or accrued lease payments, and will also apply a single discount rate to a portfolio of those leases with reasonably similar characteristics;
- For all leases, the Group will exclude from the measurement of the right of use asset initial direct costs incurred when obtaining the lease; and
- The Group will rely 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 currently estimates that on transition it will recognise right of use assets of between approximately £120m and £130m and lease liabilities of between approximately £135m and £145m. Taking account of the elimination of the Group's existing assets and liabilities for prepaid and accrued lease payments, net assets will decrease by approximately £5m, with a corresponding adjustment recognised in equity. The Group's total undiscounted operating lease commitment at 30 September 2019 as disclosed under existing reporting requirements was £162m (note 3.4). The Group's most significant leases by value are those for office buildings which comprise over 95% of existing current lease commitments. For the year ending 30 September 2020 and subsequent years, there will be a reduction in lease expenses charged to operating profit and an increase in finance costs in the income statement compared to the current treatment. The impact will depend on the future make-up of the Group's lease portfolio but, assuming the existing portfolio remains unchanged, the previous operating expense is estimated to reduce by approximately £5m and finance costs to increase by approximately £5m. The Group's total rental expense for the year ended 30 September 2019 under existing reporting requirements was £30m (note 3.2). The standard will not impact net cash flow, but cash flows from most lease payments will be reclassified from cash flows from operating activities to cash flows from financing activities, as the payments will represent the repayment of lease liabilities.

2 Segment information

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

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

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

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

- Organic is a non-GAAP measure. The contributions from discontinued operations, disposals and assets held for sale of standalone businesses in the current and prior period are removed so that results can be compared to the prior year on a like-for-like basis. Results from acquired businesses are excluded in the year of acquisition. Adjustments are made to the comparative period to present prior period acquired businesses as if these had been part of the Group throughout the prior period. Acquisitions and disposals which occurred close to the start of the opening comparative period where the contribution impact would be immaterial are not adjusted. Financial year 2018 comparative includes the impact of IFRS 15 applied in a manner consistent with financial year 2019.

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 Quarterly Business Reviews chaired by the President of Sage and Chief Financial Officer. The Executive Committee uses organic and underlying data to monitor business performance. Operating segments are reported in a manner which is consistent with the operating segments produced for internal management reporting.

The Group is organised into nine key operating segments: North America (excluding Intacct) (US and Canada), North America 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 Intacct) and North America 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, UAE, Australia, Singapore, Malaysia and Brazil.

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

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 2019 Statutory and Underlying £m	Organic adjustments* £m	Organic £m	Change Statutory	Underlying	Organic
Recurring revenue by segment						
North America	**574**	**(1)**	**573**	23.0%	14.9%	11.8%
Northern Europe	**341**	**(1)**	**340**	14.4%	14.2%	16.4%
Central and Southern Europe	**490**	**–**	**490**	3.1%	3.1%	6.9%
International	**207**	**(51)**	**156**	4.7%	8.2%	8.5%
Recurring revenue	**1,612**	**(53)**	**1,559**	11.3%	10.0%	10.8%
Software and software related services ("SSRS") revenue by segment						
North America	**68**	**–**	**68**	(8.4%)	(13.5%)	(11.5%)
Northern Europe	**27**	**(2)**	**25**	(37.5%)	(37.9%)	(37.2%)
Central and Southern Europe	**118**	**–**	**118**	(21.7%)	(21.7%)	(19.2%)
International	**47**	**(3)**	**44**	(14.6%)	(13.0%)	(8.0%)
SSRS revenue	**260**	**(5)**	**255**	(18.5%)	(20.5%)	(17.9%)
Processing revenue by segment						
North America	**15**	**(15)**	**–**	(52.8%)	(55.2%)	(8.7%)
Northern Europe	**38**	**(37)**	**1**	(1.4%)	(1.4%)	(30.3%)
Central and Southern Europe	**–**	**–**	**–**	–	–	–
International	**11**	**(4)**	**7**	(26.4%)	(23.5%)	6.3%
Processing revenue	**64**	**(56)**	**8**	(24.7%)	(25.7%)	(3.0%)
Total revenue by segment						
North America	**657**	**(16)**	**641**	14.8%	7.5%	8.8%
Northern Europe	**406**	**(40)**	**366**	6.8%	6.6%	9.7%
Central and Southern Europe	**608**	**–**	**608**	(2.8%)	(2.9%)	0.6%
International	**265**	**(58)**	**207**	(1.0%)	2.0%	4.4%
Total revenue	**1,936**	**(114)**	**1,822**	4.9%	3.1%	5.6%

2 Segment information continued

	Year ended 30 September 2018						
	Statutory £m	Underlying adjustments £m	Underlying as reported £m	Impact on foreign exchange £m	Underlying £m	Organic adjustments* £m	Organic £m
Recurring revenue by segment							
North America	468	10	478	22	500	12	512
Northern Europe	297	1	298	–	298	(6)	292
Central and Southern Europe	475	–	475	1	476	(18)	458
International	197	–	197	(6)	191	(47)	144
Recurring revenue	1,437	11	1,448	17	1,465	(59)	1,406
Software and software related services ("SSRS") revenue by segment							
North America	75	–	75	3	78	(1)	77
Northern Europe	44	–	44	–	44	(4)	40
Central and Southern Europe	150	–	150	–	150	(4)	146
International	55	–	55	(1)	54	(6)	48
SSRS revenue	324	–	324	2	326	(15)	311
Processing revenue by segment							
North America	31	–	31	2	33	(33)	–
Northern Europe	39	–	39	–	39	(37)	2
Central and Southern Europe	–	–	–	–	–	–	–
International	15	–	15	–	15	(9)	6
Processing revenue	85	–	85	2	87	(79)	8
Total revenue by segment							
North America	574	10	584	27	611	(22)	589
Northern Europe	380	1	381	–	381	(47)	334
Central and Southern Europe	625	–	625	1	626	(22)	604
International	267	–	267	(7)	260	(62)	198
Total revenue	1,846	11	1,857	21	1,878	(153)	1,725

* Adjustments relate to the disposal of Sage Payroll Solutions and assets held for sale in the current year (note 15.3). Adjustments to the prior year comparatives include proforma adjustments for the areas of impact of IFRS 15 adoption assuming the same contractual basis as the current year. This is to enable like-for-like comparison across the periods.

2.2 Operating profit by segment

	Year ended 30 September 2019					Change		
	Statutory £m	**Underlying adjustments £m**	**Underlying £m**	**Organic adjustments £m**	**Organic £m**	Statutory	Underlying	Organic
Operating profit by segment								
North America	**128**	**5**	**133**	**–**	**133**	36.6%	(15.1%)	(22.9%)
Northern Europe	**134**	**23**	**157**	**(14)**	**143**	3.1%	10.9%	13.7%
Central and Southern Europe	**120**	**9**	**129**	**–**	**129**	(31.4%)	(29.5%)	(25.5%)
International	**–**	**29**	**29**	**(2)**	**27**	(98.7%)	1.7%	4.9%
Total operating profit	**382**	**66**	**448**	**(16)**	**432**	(10.5%)	(12.1%)	(13.0%)

	Year ended 30 September 2018						
	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	94	55	149	8	157	15	172
Northern Europe	130	11	141	–	141	(15)	126
Central and Southern Europe	174	10	184	(1)	183	(11)	172
International	29	1	30	(2)	28	(2)	26
Total operating profit	427	77	504	5	509	(13)	496

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**

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	**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**

The results by segment from continuing operations were as follows:

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

Reconciliation of underlying operating profit to statutory operating profit

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

2 Segment information continued

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	2019 £m	2018 £m
USA	**561**	486
UK	**380**	353
France	**277**	292
Other individually immaterial countries	**718**	715
	1,936	1,846

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	2019 £m	2018 £m
USA	**913**	1,348
UK	**371**	416
France	**237**	243
Other individually immaterial countries	**931**	390
	2,452	2,397

3 Profit before income tax

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

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

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

3.1 Revenue

Accounting policy

The Group's new IFRS 15 accounting policy is disclosed below. Differences from policies applied to 2018 comparatives are disclosed in note 17, and full revenue policies applied to 2018 figures can be found in the Annual Report and Accounts 2018. The Group reports revenue under three revenue categories and the basis of recognition for each category is described below:

Category and examples	Accounting treatment
Recurring revenue Subscription contracts Maintenance and support contracts	Recurring revenue is revenue earned from customers for the provision of a good or service 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.
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.

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 native cloud 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.

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.

3 Profit before income tax continued

3.1 Revenue continued

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 licenses which have significant standalone functionality at the point in time when the customer has access to and thus 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. This is usually assessed based on whether the business partner has responsibility for payment 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	2019 £m	2018 £m
Staff costs		**885**	837
Depreciation of property, plant and equipment	7	**34**	20
Amortisation of intangible assets	6.2	**44**	48
(Gain)/loss on disposal of subsidiary	3.6	**(28)**	1
Other operating lease rentals payable		**30**	27
Other acquisition-related items	3.6	**21**	32

The Group incurred £220m (2018: £192m) of research and development expenditure in the year, of which £194m (2018: £174m) 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 £12m 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. 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 September 2020, by which time the relocation is expected to be complete and the existing property vacated. This has resulted in an increase of £12m in the amount of depreciation charged in the income statement in the year ended 30 September 2019. These changes are also expected to increase the depreciation charge for the year ending 30 September 2020 by £48m. 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.

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:

	2019 £m	2018 £m
Fees payable to the Group's auditor for the audit of the Plc's companies and the consolidated accounts	**2**	2
Fees payable to the Group's auditor for the audit of the Company's subsidiaries	**3**	2
Fees payable to the Group's auditor for audit-related assurance services*	**–**	–
Total audit and audit related services	**5**	4
Other non-audit services	**–**	–
Total fees	**5**	4

* 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 95.

3 Profit before income tax continued

3.3 Employees and Directors

Average monthly number of people employed (including Directors)	**2019 number**	2018 number
By segment:		
North America	**2,551**	2,704
Northern Europe	**2,865**	3,109
Central and Southern Europe	**4,334**	4,396
International	**3,005**	3,451
	12,755	13,660

Staff costs (including Directors on service contracts)	Note	**2019 £m**	2018 £m
Wages and salaries		**788**	706
Social security costs		**104**	100
Post-employment benefits	10	**18**	13
Share-based payments	14.2	**32**	18
		942	837

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

Key management compensation	**2019 £m**	2018 £m
Salaries and short-term employee benefits	**9**	4
Post-employment benefits	**–**	–
Share-based payments	**7**	2
	16	6

Key management personnel are deemed to be members of the Group's Executive Committee members and the Non-executive Directors as shown on pages 67 to 69. The key management figures given above include the Executive Directors of the Group.

3.4 Operating lease commitments

Accounting policy

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

Total future minimum lease payments under non-cancellable operating leases falling due for payment as follows:	**2019 Property, vehicles, plant and equipment £m**	2018 Property, vehicles, plant and equipment £m
Within one year	**30**	30
Later than one year and less than five years	**76**	89
After five years	**56**	32
	162	151

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

3.5 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.

	2019 £m	2018 £m
Finance income:		
Interest income on short-term deposits	**6**	4
Foreign currency movements on intercompany balances	**2**	1
Finance income	**8**	5
Finance costs:		
Finance costs on bank borrowings	**(11)**	(14)
Finance costs on US senior loan notes	**(16)**	(17)
Fair value adjustments to debt-related financial instruments	**–**	(1)
Amortisation of issue costs	**(2)**	(2)
Finance costs	**(29)**	(34)
Finance costs – net	**(21)**	(29)

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 2019 £m	Non-recurring 2019 £m	Total 2019 £m	Recurring 2018 £m	Non-recurring 2018 £m	Total 2018 £m
M&A activity-related items						
Amortisation of acquired intangibles	**31**	**–**	**31**	35	–	35
(Gain)/loss on disposal of subsidiary	**–**	**(28)**	**(28)**	–	1	1
Impairment of assets held for sale	**–**	**14**	**14**	–	–	–
Adjustment to acquired deferred income	**–**	**–**	**–**	11	–	11
Other M&A activity-related items	**21**	**–**	**21**	21	–	21
Other items						
Litigation items	**–**	**–**	**–**	–	4	4
Restructuring costs	**–**	**–**	**–**	–	5	5
Property restructuring costs	**–**	**16**	**16**	–	–	–
Office relocation	**–**	**12**	**12**	–	–	–
Total adjustments made to operating profit	**52**	**14**	**66**	67	10	77
Fair value adjustments	**–**	**–**	**–**	1	–	1
Gain on foreign currency movements on intercompany balances	**(2)**	**–**	**(2)**	(1)	–	(1)
Total adjustments made to profit before income tax	**50**	**14**	**64**	67	10	77

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 and directly attributable integration costs. This includes a provision for future selling costs for assets held for sale. Further details can be found in note 15.3.

Foreign currency movements on intercompany balances of £2m (2018: credit of £1m) 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.

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

The prior year fair value adjustment was in relation to an embedded derivative asset which relates to contractual terms agreed as part of the US private placement debt.

Non-recurring items

Net charges in respect of non-recurring items amounted to £14m (2018: £10m).

Property restructuring costs of £16m (2018: £nil) relate to the reorganisation of the Group's properties and consist of net lease exit costs following consolidation of office space and impairment of leasehold and other related assets that are no longer in use. The Group is anticipating incurring additional costs in the following year in connection with the further reorganisation of the Group's property portfolio.

The prior year restructuring costs relate to costs arising from the restructure of parts of the senior leadership team.

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 adjustment relating to litigation costs of £4m in the prior year related to two specific employment related matters that, based on the Group's experience, are one-off in nature. Both cases were settled during the year. All other litigation costs which have been incurred through the normal course of business are included within underlying operating profit.

Details of gain on disposal of subsidiary and impairment of assets held for sale can be found in note 15.3.

In the prior year, the loss on disposal of subsidiary related to the sale of Sage XRT Brasil Ltda.

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	**2019 £m**	2018 £m
Current income tax			
– Current tax on profit for the year		**91**	103
– Adjustment in respect of prior years		**3**	–
Current income tax on continuing operations		**94**	103
Current income tax on discontinued operations		**–**	–
		94	103
Deferred tax			
Origination and reversal of temporary differences		**5**	–
Impact of rate changes		**–**	(4)
Adjustment in respect of prior years		**(4)**	4
Deferred tax	11	**1**	–
The current year tax expense is split into the following:			
Underlying tax expense		**116**	123
Tax credit on adjustments between the underlying and statutory operating profit		**(21)**	(17)
Tax only adjustments between the underlying and statutory operating profit		**–**	(3)
Income tax expense on continuing operations		**95**	103
Income tax expense on discontinued operations		**–**	–
Income tax expense reported in income statement		**95**	103

	2019 £m	2018 £m
Tax on items credited to other comprehensive income		
Deferred tax charge on actuarial gain on post-employment benefit obligations	**–**	–
Deferred tax credit on foreign exchange movements	**–**	–
Total tax on items credited to other comprehensive income	**–**	–

Deferred tax charge relating to share options and IFRS15 and 9 of £4m (2018: charge of £2m) has been recognised directly in equity.

4 Income tax expense continued

The tax for the year is higher (2018: higher) than the rate of UK corporation tax applicable to the Group of 19% (2018: 19%). The differences are explained below:

	2019 £m	2018 £m
Profit before income tax from continuing operations	**361**	398
Profit before income tax from discontinued operations	**–**	–
Total profit before income tax	**361**	398
Statutory profit before income tax multiplied by the rate of UK corporation tax of 19% (2018: 19%)	**69**	76
Tax effects of:		
Adjustments in respect of prior years	**(1)**	4
Foreign tax rates in excess of UK rate of tax	**20**	26
US tax reform	**1**	(3)
Non-deductible expenses and permanent items	**6**	(1)
Other corporate taxes (withholding tax, business tax)	**7**	5
Tax incentive claims	**(7)**	(5)
Recognition of tax losses and amortisation	**–**	1
At the effective income tax rate of 26% (2018: 26%)	**95**	103
Income tax expense reported in the income statement	**95**	103
Income tax attributable to discontinued operations	**–**	–
	95	103

The effective tax rate on statutory profit before tax was 26% (2018: 26%), whilst the effective tax rate on underlying profit before tax on continuing operations was 27% (2018: 26%). The effective tax rate is higher than the UK corporation tax rate applicable to the Group primarily due to the geographic profile of the Group, the inclusion of local business taxes in the corporate tax expense offset by innovation tax credits for registered patents and research and development activities which are government tax incentives in a number of operating territories. The Group recognises certain provisions and accruals in respect of tax which involve a degree of estimation and uncertainty where the tax treatment cannot finally be determined until a resolution has been reached by the relevant tax authority. This approach resulted in providing £27m as at 30 September 2019 (2018: £27m).

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

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

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

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

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 EC Commission's decision. The Group, in line with a number of UK corporates, is making a similar appeal. We have calculated our maximum potential liability, excluding interest, to be approximately £35m. Based on current advice, we consider that no provision is required at this time. 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 2019**	Underlying as reported 2018	Underlying 2018	**Statutory 2019**	Statutory 2018
Earnings attributable to owners of the parent (£m)					
Profit for the year	**309**	352	356	**266**	295
Number of shares (millions)					
Weighted average number of shares	**1,086**	1,083	1,083	**1,086**	1,083
Dilutive effects of shares	**9**	6	6	**9**	6
	1,095	1,089	1,089	**1,095**	1,089
Earnings per share attributable to owners of the parent – continuing operations					
Basic earnings per share (pence)	**28.40**	32.51	32.85	**24.49**	27.21
Diluted earnings per share (pence)	**28.17**	32.35	32.68	**24.29**	27.07

5 Earnings per share continued

Reconciliation of earnings	2019 £m	2018 £m
Earnings – statutory profit for the year attributable to owners of the parent	**266**	295
Adjustments:		
– Amortisation of acquired intangible assets and adjustment to acquired deferred income	**31**	46
– Fair value adjustments to debt-related financial instruments	**–**	1
– (Gain)/loss on disposal of subsidiary	**(28)**	1
– Foreign currency movements on intercompany balances	**(2)**	(1)
– Other M&A activity-related items	**21**	21
– Impairment of assets held for sale	**14**	–
– Restructuring costs and litigation-related items	**16**	9
– Office relocation	**12**	–
– Taxation on adjustments between underlying and statutory profit before tax	**(21)**	(20)
Net adjustments	**43**	57
Earnings – underlying profit for the year (before exchange movement)	**309**	352
Exchange movement	**–**	5
Taxation on exchange movement	**–**	(1)
Net exchange movement	**–**	4
Earnings – underlying profit for the year (after exchange movement) attributable to owners of the parent	**309**	356

Exchange movement relates to the retranslation of prior year results to current year exchange rates as shown in the table on page 52 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	**2019 £m**	2018 £m
Cost at 1 October		**2,100**	2,115
– Additions	15.1	**41**	–
– Disposals*	15.3	**3**	–
– Transfer to held for sale	15.3	**(119)**	(32)
– Exchange movement		**73**	17
At 30 September		**2,098**	2,100
Impairment at 1 October		**92**	113
– Transfer to held for sale	15.3	**(93)**	–
– Exchange movement		**1**	(21)
At 30 September		**–**	92
Net book amount at 30 September		**2,098**	2,008

* Includes finalisation of the sale of Sage Payroll Solutions. See note 15.3.

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:

	2019 £m	2018 £m
North America		
– Sage Business Solutions Division (SBS)	**752**	705
– Sage Intacct	**494**	466
UK & Ireland	**287**	287
France	**224**	225
Iberia	**134**	135
Central Europe	**87**	85
Africa and the Middle East	**31**	32
Australia	**28**	28
Asia	**20**	19
Sage Pay Europe (note 15.3)	**–**	26
Unallocated – Ocrex business combination*	**41**	–
	2,098	2,008

* Unallocated goodwill relates to Ocrex Limited, which was acquired on 27 September 2019 and calculated on a provisional basis. See note 15.1. In accordance with IAS 36 "Impairment of assets", goodwill will be allocated before the end of the first annual period beginning after the acquisition date, being by 30 September 2020. Management assessed whether there have been any triggering event or indicator that could lead to an impairment of the goodwill acquired through the Ocrex Limited acquisition and concluded that there were no indicators that the fair value is lower than the amount paid by Sage.

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 2019. In all cases, the 2020 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 six years for the Sage Intacct CGU to reflect the planned growth following its acquisition in 2017. Beyond the three-year Group plan period and additional six-year period for the Sage Intacct CGU these projections are extrapolated using an estimated long-term growth rate. The key assumptions in the value in use calculations are the average medium-term revenue growth rates and the long-term growth rates of net operating cash flows.

- The average medium-term revenue growth rates represent the compound annual revenue growth for the first five (2018: five) years. The average medium-term revenue growth rate applied to CGUs reflects the specific rates for each territory.
- Long-term growth rates of net operating cash flows are assumed to be equal to the long-term growth rate in the gross domestic product of the country in which the CGU's operations are undertaken reflecting the specific rates for each territory.

Range of rates used across the different CGUs	2019	2018
– Average medium-term revenue growth rates*	**2%-17%**	4%-22%
– Long-term growth rates to net operating cash flows	**1%-3%**	1%-4%

* 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:

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%**

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

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

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 2019 and the risks specific to the CGU or group of CGUs. The post-tax discount rates applied to CGUs or group of CGUs were in the range of 7.2% (2018: 7.2%) to 15.6% (2018: 15.3%), reflecting the specific rates for each territory.

Sensitivity analysis
A sensitivity analysis was performed for each of the significant CGUs or group of CGUs and other than for the Sage Intacct CGU management concluded that no reasonably possible change in any of the key assumptions would 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 6% p.a. for the initial five years would reduce the value in use by £968m 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.

For the Asia CGU, a reasonably possible change in the average medium-term revenue growth rate by 3% p.a. for the subsequent three years would reduce the value in use by £7m down to its carrying value. The Group has concluded that no reasonably possible change in discount rate or long-term growth rate would reduce the recoverable amount to below its carrying value.

Impairment charge
The Group performed its annual test for impairment as at 30 June 2019. The recoverable amount exceeded the carrying value for each CGU or group of CGUs, accordingly no impairment charge has been recognised in the year (2018: £nil).

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 7 years	Computer software	– 2 to 7 years

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

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

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

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

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

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

	Brands £m	Technology £m	Internal IPR&D £m	Computer software £m	Customer relationships £m	Total £m
Cost at 1 October 2018	**41**	**187**	**4**	**135**	**183**	**550**
– Additions	–	4	–	11	–	15
– 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	**37**	**182**	**4**	**146**	**172**	**541**
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	**34**	**102**	**4**	**98**	**75**	**313**
Net book amount at 30 September 2019	**3**	**80**	**–**	**48**	**97**	**228**

* Includes finalisation of the sale of Sage Payroll Solutions. See note 15.3.

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

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

7 Property, plant and equipment

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

Accounting policy

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

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

Freehold land is not depreciated.

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

7 Property, plant and equipment continued

	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 assets 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 assets 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**

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

All depreciation charges in the year have been charged through selling and administrative expenses. Of these depreciation charges, £12m (2018: £nil) has been classified as a non-recurring adjustment, 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 bad and doubtful debts. Our trade and other payables are amounts we owe to our suppliers that have been invoiced to us or accrued by us. They also include taxes and social security amounts due in relation to our role as an employer.

This note also gives some additional detail on the age and recoverability of our trade receivables, which provides an understanding of the credit risk faced by the Group as a part of everyday trading. Credit risk is further disclosed in note 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 Group has accounted for its trade receivables in accordance with IFRS 9 for the first time in the year ended 30 September 2019. Information relating to the year ended 30 September 2018 is presented in accordance with the Group's previous accounting policies under IAS 39. Under IAS 39, a provision for impairment of trade receivables was established when there was objective evidence that the Group would not be able to collect all amounts due according to the original terms of the receivables. Further explanation of the changes arising on transition to IFRS 9 is included in note 1.

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. Differences between IFRS 15 and previous accounting policy are set out in note 17.

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.

8 Working capital continued

8.1 Trade and other receivables continued

Non-current:	2019 £m	2018 £m
Customer acquisition costs	**65**	–
Other receivables	**4**	–
Prepayments	**4**	2
	73	2

Current:	2019 £m	2018 £m
Trade receivables	**280**	390
Less: allowance for expected credit losses	**(23)**	(20)
Trade receivables – net	**257**	370
Other receivables	**15**	24
Prepayments	**55**	66
Customer acquisition costs	**37**	–
	364	460

The Group has incurred £111m to obtain customer contracts and an amortisation expense of £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:	2019 £m	2018 £m
At 1 October	**20**	21
Impact of adoption of IFRS 9	**6**	–
Increase in allowance for expected credit losses	**7**	7
Receivables written off during the year as uncollectable	**(5)**	(6)
Unused amounts reversed	**(3)**	(5)
Transfer to held for sale	**(1)**	–
Exchange movement	**(1)**	3
At 30 September	**23**	20

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 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)**

Disclosures for the prior year are presented in accordance with the requirements that applied under IAS 39:

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

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

Trade receivables which were past due date but not impaired at 30 September 2018 were £82m.

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

Included in selling and administrative expenses in the income statement is £17m (2018: £16m) in relation to receivables credit losses.

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 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:	**2019 £m**	2018 £m
Trade payables	**16**	29
Other tax and social security payable	**37**	52
Other payables	**38**	31
Cash held on behalf of customers (see note 12.3)	**–**	19
Accruals	**200**	118
	291	249

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 revenue is unwound as related performance obligations are satisfied.

In all material respects current deferred income at 1 October 2018 was recognised as revenue during the year. Other than business-as-usual movements 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 leases and dilapidation charges.

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

Accounting policy

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

– The Group has a present obligation (legal or constructive) as a result of a past event;

– It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

– A reliable estimate can be made of the amount of the obligation.

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

	Restructuring £m	Legal £m	Building £m	Other £m	Total £m
At 1 October 2018	**2**	**11**	**22**	**2**	**37**
– Additional provision in the year	**1**	**4**	**13**	**–**	**18**
– Provision utilised in the year	**(2)**	**(4)**	**(19)**	**–**	**(25)**
– Unused amounts reversed	**–**	**(1)**	**–**	**–**	**(1)**
– Exchange movement	**–**	**(1)**	**–**	**–**	**(1)**
– Transfer to held for sale	**–**	**(2)**	**–**	**–**	**(2)**
At 30 September 2019	**1**	**7**	**16**	**2**	**26**

	Restructuring £m	Legal £m	Building £m	Other £m	Total £m
Maturity profile					
< 1 year	**1**	**3**	**5**	**2**	**11**
1 – 2 years	**–**	**4**	**7**	**–**	**11**
2 – 5 years	**–**	**–**	**3**	**–**	**3**
> 5 years	**–**	**–**	**1**	**–**	**1**
At 30 September 2019	**1**	**7**	**16**	**2**	**26**

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.

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 onerous lease commitments. 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.

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	2019 £m	2018 £m
Defined contribution schemes		**16**	11
Defined benefit plans		**2**	2
	3.3	**18**	13

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 2019.

Weighted average principal assumptions made by the actuaries	2019 %	2018 %
Rate of increase in pensionable salaries	**2.0**	2.0
Discount rate	**0.3**	1.0
Inflation assumption	**2.0**	2.0

Mortality rate assumptions made by the actuaries	2019 Years	2018 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	2019 £m	2018 £m
Present value of funded obligations	**(48)**	(41)
Fair value of plan assets	**23**	19
Net liability recognised in the balance sheet	**(25)**	(22)

Major categories of plan assets as a percentage of total plan assets	2019 £m	2019 %	2018 £m	2018 %
Bonds (quoted)	**8**	**35**	6	29
Equities (quoted)	**6**	**26**	6	34
Other (unquoted)	**9**	**39**	7	37
	23	**100**	19	100

Expected contributions to post-employment benefit plans for the year ending 30 September 2020 are £1m (2018: expected contributions for the year ending 30 September 2019: £1m).

Amounts recognised in the income statement	2019 £m	2018 £m
Net interest costs on obligation	**–**	–
Current service cost	**(2)**	(2)
Total included within staff costs – all within selling and administrative expenses	**(2)**	(2)

Changes in the present value of the defined benefit obligation	2019 £m	2018 £m
At 1 October	**(41)**	(43)
Exchange movement	**(1)**	–
Service cost	**(2)**	(2)
Plan participant contributions	**(1)**	(1)
Interest cost	**(1)**	–
Benefits paid	**2**	3
Actuarial (loss)/gain – financial assumptions	**(3)**	1
Actuarial (loss)/gain – experience	**(1)**	1
At 30 September	**(48)**	(41)

Changes in the fair value of plan assets	2019 £m	2018 £m
At 1 October	**19**	21
Exchange movement	**1**	–
Employer's contributions	**1**	1
Plan participant contributions	**1**	1
Benefits paid	**(2)**	(2)
Actuarial gain on plan assets	**3**	(2)
At 30 September	**23**	19

Analysis of the movement in the balance sheet liability	2019 £m	2018 £m
At 1 October	**(22)**	(22)
Total expense as recognised in the income statement	**(3)**	(2)
Benefits paid	**–**	1
Contributions paid	**1**	1
Actuarial loss	**(1)**	–
At 30 September	**(25)**	(22)

Sensitivity analysis on significant actuarial assumptions		2019 £m	2018 £m
Discount rate applied to scheme obligations	+/- 0.5% pa	**3**	2
Salary increases	+/- 0.5% pa	**2**	1

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.

11 Deferred income tax continued

The movement on the deferred tax account is as shown below:	2019 £m	2018 £m
At 1 October	**26**	36
Income statement (charge)/credit	**(1)**	–
Acquisition of subsidiaries	**–**	(3)
Disposal of subsidiaries	**–**	–
Transfer to held for sale	**(13)**	1
Other balance sheet reclassification	**–**	(1)
Exchange movement	**(1)**	(5)
Other comprehensive income/equity movement in deferred tax	**(4)**	(2)
At 30 September	**7**	26

The net deferred tax asset at the end of the year is analysed below:	2019 £m	2018 £m
Deferred tax assets	**31**	51
Deferred tax liabilities	**(24)**	(25)
Net deferred tax asset	**7**	26

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

In particular, there are tax losses carried forward in respect of Brazilian entities generating a potential net tax asset of £13m. There is sufficient supporting evidence of future profitability which is available to allow for the recognition of this asset. This evidence includes detailed financial projections for each individual entity as adjusted for tax sensitive items. As at 30 September 2019 following a decision to sell the Brazilian entities this asset has been transferred to held for sale and can be recovered on transfer of ownership. See note 15.3.

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 assets and liabilities categorised as "other deferred tax" of £32m (2018: £36m) includes various balances in relation to accounting provisions/accruals (asset £22m) (2018: £31m), goodwill amortisation (liability £21m) (2018: £13m), deferred revenue (asset £17m) (2018: £16m), deferred tax on stock options (asset £7m) (2018: £1m), interest carried forward (asset £3m) (2018: nil), R&D capitalisation (asset £2m) (2018: nil), and other sundry amounts (asset £2m) (2018: £1m).

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

Deferred tax	Intangible assets £m	Tax losses £m	Other £m	Total £m
At 1 October 2017	(60)	59	37	36
Income statement credit/(debit)	22	(27)	5	–
Acquisition/disposal	(3)	–	–	(3)
Transferred to assets held for sale	8	(7)	–	1
Other comprehensive income/equity movement in deferred tax	–	–	(2)	(2)
Other balance sheet reclassification	–	–	(1)	(1)
Exchange movement	(1)	(1)	(3)	(5)
At 30 September 2018	**(34)**	**24**	**36**	**26**
Income statement (debit)/credit	**(1)**	**(5)**	**5**	**(1)**
Acquisition/disposal	**–**	**–**	**–**	**–**
Transferred to assets 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	**(35)**	**10**	**32**	**7**

The company has unrecognised carried forward losses of £62m (2018: £50m) in the UK and the US available indefinitely to reduce certain future taxable profits. Deferred tax assets have not been recognised in respect of these losses due to uncertainty whether suitable profits will arise in future periods against which the deferred tax asset would reverse.

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.

12.1 Cash flow generated from continuing operations

Reconciliation of profit for the year to cash generated from continuing operations	2019 £m	2018 £m
Profit for the year	**266**	295
Adjustments for:		
– Income tax	**95**	103
– Finance income	**(8)**	(5)
– Finance costs	**29**	34
– Amortisation and impairment of intangible assets	**44**	48
– Depreciation and impairment of property, plant and equipment	**37**	20
– Impairment and cost of disposal of assets held for sale	**19**	–
– Loss on disposal of tangible assets	**–**	1
– R&D tax credits	**(2)**	(6)
– Equity-settled share-based transactions	**32**	18
– (Gain)/loss on disposal of subsidiary	**(28)**	1
– Exchange movement	**–**	–
Changes in working capital (excluding effects of acquisitions and disposals of subsidiaries):		
– Decrease in trade and other receivables	**18**	7
– Increase/(decrease) in trade and other payables and provisions	**46**	(61)
– Increase in deferred income	**38**	32
Cash generated from continuing operations	**586**	487

12.2 Net debt

Reconciliation of net cash flow to movement in net debt	2019 £m	2018 £m
Increase in cash in the year (pre-exchange movements)	**158**	107
Cash outflow from movement in loans, and cash held on behalf of customers	**142**	60
Change in net debt resulting from cash flows	**300**	167
Acquisitions	**1**	–
Non-cash movements	**(2)**	(2)
Exchange movement	**(24)**	(20)
Movement in net debt in the year	**275**	145
Net debt at 1 October	**(668)**	(813)
Net debt at 30 September	**(393)**	(668)

Analysis of change in net debt	At 1 October 2017 £m	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	231	272	**120**	**1**	**(4)**	**(26)**	**–**	**8**	**371**
Bank overdrafts	(18)	(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	213	322	**158**	**1**	**–**	**(117)**	**–**	**8**	**372**
Liabilities arising from financing activities									
Loans due within one year	(37)	–	**–**	**–**	**–**	**–**	**(115)**	**(7)**	**(122)**
Loans due after more than one year	(914)	(913)	**181**	**–**	**–**	**–**	**113**	**(24)**	**(643)**
Cash held on behalf of customers	(75)	(19)	**(6)**	**–**	**–**	**26**	**–**	**(1)**	**–**
Cash held on behalf of customers included in held for sale	–	(58)	**(33)**	**–**	**–**	**91**	**–**	**–**	**–**
	(1,026)	(990)	**142**	**–**	**–**	**117**	**(2)**	**(32)**	**(765)**
Total	(813)	(668)	**300**	**1**	**–**	**–**	**(2)**	**(24)**	**(393)**

Included in cash above is £nil (2018: £77m) relating to cash held on behalf of customers. The reduction in the year is due to the disposals made in the current year, see note 15.3.

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.

	2019 £m	2018 £m
Cash at bank and in hand	**370**	252
Cash held on behalf of customers	**–**	19
Short-term bank deposits	**1**	1
	371	272

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

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

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 2019, 93% (2018: 80%) 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 Cash flow and net debt continued

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.

Current	2019 £m	2018 £m
Bank overdrafts	–	8
US senior loan notes – unsecured	122	–
	122	8

Non-current	2019 £m	2018 £m
Bank loans – unsecured	243	416
US senior loan notes – unsecured	400	497
	643	913

Included in loans above is £765m (2018: £913m) of unsecured loans (after unamortised issue costs).

In the table above, bank loans and loan notes are stated net of unamortised issue costs of £2m (2018: £2m). Unsecured bank loans attract an average interest rate of 2.6% (FY18: 2.1%).

				Loan value	
Borrowings	Year issued	Interest coupon	Maturity	2019 £m	2018 £m
US private placement					
– USD 150m loan note	2013	3.08%	20-May-20	122	115
– USD 150m loan note	2013	3.71%	20-May-23	122	115
– USD 50m loan note	2013	3.86%	20-May-25	40	38
– EUR 55m loan note	2015	1.89%	26-Jan-22	49	49
– EUR 30m loan note	2015	2.07%	26-Jan-23	27	27
– USD 200m loan note	2015	3.73%	26-Jan-25	162	153

Unsecured bank loans comprises a fixed term loan of £200m (2018: £nil) expiring in September 2021 and £45m drawings (2018: £418m) under the multi-currency revolving credit facility of £720m (2018: £686m) expiring in February 2024, which consists both of US$719m/£585m (2018: US$719m/£551m) and of £135m (2018: £135m) tranches.

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 2019	Note	**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		**(122)**	**–**	**(122)**
Non-current liabilities				
Borrowings	12.4	**(643)**	**–**	**(643)**
		(374)	**6**	**(368)**

13 Financial instruments continued

For the year ended 30 September 2018, financial instruments are reported under IAS 39. The amounts in the consolidated balance sheet at that date that are accounted for as financial instruments, and their classification under IAS 39, are as follows. The changes resulting from the adoption of IFRS 9 are explained in note 1.

		IAS 39 classification				
As at 30 September 2018	Note	Loans and receivables £m	Available -for-sale £m	At fair value through profit or loss £m	At amortised cost £m	Total £m
Non-current assets						
Fixed asset investment		–	17	–	–	17
Other financial assets		2	–	1	–	3
Current assets						
Trade and other receivables: trade receivables	8.1	370	–	–	–	370
Trade and other receivables: other receivables	8.1	23	–	–	–	23
Cash and cash equivalents (excluding bank overdrafts)	12.3	272	–	–	–	272
Current liabilities						
Trade and other payables: trade payables	8.3	–	–	–	(29)	(29)
Trade and other payables: other payables	8.3	–	–	–	(31)	(31)
Trade and other payables: cash held on behalf of customers	8.3	–	–	–	(19)	(19)
Borrowings	12.4	–	–	–	(8)	(8)
Non-current liabilities						
Borrowings	12.4	–	–	–	(913)	(913)
Trade and other payables		–	–		(8)	(8)
		666	17	1	(1,008)	(324)

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

Borrowings

The fair value of borrowings is determined by reference to interest rate movements on the US$ private placement market and therefore can be considered as a level 2 fair value as defined within IFRS 13.

		2019		2018	
	Note	**Book value £m**	**Fair value £m**	Book value £m	Fair value £m
Long-term borrowing	12.4	**(643)**	**(660)**	(913)	(906)
Short-term borrowing	12.4	**(122)**	**(122)**	(8)	(8)

Fixed asset investment

At 30 September 2018, the Group had a US$ fixed asset investment in an unquoted equity instrument which was classified as an available-for-sale financial asset under IAS 39 and carried at its fair value of £17m. During the year ended 30 September 2019, the investment was derecognised on its redemption by the issuer. The fair value of the investment at the date of derecognition was £17m, and no gain or loss arose on disposal. On transition to IFRS 9, the Group elected to classify the investment as held at fair value through other comprehensive income as the investment was not considered to be held for trading. As a result, changes in the fair value of the investment continued to be recognised in the statement of other comprehensive income when they arose. However, in a change to the previous treatment, the cumulative gain was not reclassified to profit for the period when the investment was derecognised. At 30 September 2018, the fair value of the investment was determined using a discounted cash flow valuation technique. The main inputs to the calculation for which assumptions were made were the discount rate, the timing of future cash flows and the period over which the investment would continue to be held. The gain on revaluation of £1m was recognised in other comprehensive income in the year ended 30 September 2018. The remaining movement was due to foreign currency exchange. This was a level 3 fair value as defined within IFRS 13.

Contingent consideration receivable

On the disposal of Sage Payroll Solutions during the year, the Group recognised contingent consideration receivable of £5m. This is classified as a financial asset measured at fair value through profit or loss. An explanation of the measurement basis applied is set out in note 15.3.

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:

			2019
	Borrowings £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**

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

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:

	2019 £m	2018 £m
Expiring in more than two years but not more than five years	**675**	268

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 Financial instruments continued

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.

	2019		2018	
	Income (losses)/gains £m	**Equity (losses)/gains £m**	Income (losses)/gains £m	Equity (losses)/gains £m
1% increase in market interest rates	**(2)**	**(2)**	(3)	(3)
1% decrease in market interest rates	**2**	**2**	3	3

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

	2019	2018
	Equity gains/(losses) £m	Equity gains/(losses) £m
10% strengthening of sterling versus the US Dollar	**41**	38
10% strengthening of sterling versus the Euro	**7**	7
10% weakening of sterling versus the US Dollar	**(50)**	(47)
10% weakening of sterling versus the Euro	**(8)**	(8)

13.5 Hedge accounting

Accounting policy

On transition to IFRS 9, the Group has 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 the 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:

		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:

	Change in value of hedged item used to determine hedge effectiveness £m	Foreign currency translation reserve £m
Net investment in foreign subsidiaries – USD	25	82
Net investment in foreign subsidiaries – EUR	–	12
	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 during the year, an exchange difference of £6m related to hedge 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 and makes adjustments to it with respect to changes in economic conditions and our strategic objectives. The Group has set a long-term minimum leverage target of 1.0x net debt to EBITDA and will work to maintain this going forward.

Liquidity risk

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

Credit risk

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

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

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 2019, the Group had £371m (2018: £272m) 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 2019, the Group's borrowings comprised US private placement loan notes of £522m (2018: £497m), which have an average fixed interest rate of 3.33% (2018: 3.31%); and unsecured bank loans of £243m (2018: £416m), comprising a fixed term loan and a bank revolving credit facility, which have an average interest rate of 2.6% (2018: 2.1%).

13 Financial instruments continued

13.6 Financial risk management continued

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 2019 and 30 September 2018, 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 14/77 pence each	**2019 shares**	**2019 £m**	2018 shares	2018 £m
At 1 October	**1,120,789,295**	**12**	1,120,638,121	12
Shares issued	**–**	**–**	151,174	–
At 30 September	**1,120,789,295**	**12**	1,120,789,295	12

Issues of ordinary shares

No new shares were issued during the year (2018: Executive Share Option Scheme – 23,179 14/77p ordinary shares; Savings-related Share Option Scheme – 127,995 14/77p ordinary shares).

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 £32m (2018: £18m), all of which related to equity-settled share-based payment transactions.

Scheme	2019 £m	2018 £m
Performance Share Plan	6	1
Restricted Share Plan	23	9
Share options	3	8
Total	32	18

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 3,690,288 (2018: 2,704,069) awards were made during the year.

Awards from 2016-2018
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 2016 onwards is the companies comprised in the FTSE 100 Index at the start of the performance period, excluding financial services and extraction companies.

Awards 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.

14 Equity continued

14.2 Share-based payments continued

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 8% and 10% or 10% and 11%, the extent to which the revenue performance condition is satisfied will be calculated on a straight-line pro rata basis between 14% and 56% or between 56% and 70% respectively.

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 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**

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

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.

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

	2019 Number '000s	2019 Weighted average exercise price £	2018 Number '000s	2018 Weighted average exercise price £
Outstanding at 1 October	**6,245**	**–**	7,627	–
Awarded	**3,690**	**–**	2,704	–
Forfeited	**(2,085)**	**–**	(2,392)	–
Exercised	**(482)**	**–**	(1,694)	–
Outstanding at 30 September	**7,368**	**–**	6,245	–
Exercisable at 30 September	**–**	**–**	–	–

	2019 Weighted average remaining life years		2018 Weighted average remaining life years	
Range of exercise prices	**Expected**	**Contractual**	Expected	Contractual
N/A	**1.3**	**1.3**	1.3	1.3

The Sage Group Restricted Share Plan

The Group's Restricted Share Plan is a long-term incentive plan used in limited circumstances and usually on a one-off basis, under which contingent share awards are usually made only with service conditions. Executive Directors are not permitted to participate in the plan and shares are either purchased in the market or treasury shares are utilised to satisfy vesting awards. During the year 5,258,827 (2018: 2,609,526) 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 579-739p.

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

	2019 Number '000s	2019 Weighted average exercise price £	2018 Number '000s	2018 Weighted average exercise price £
Outstanding at 1 October	**2,734**	**–**	740	–
Awarded	**5,259**	**–**	2,610	–
Forfeited	**(423)**	**–**	(226)	–
Exercised	**(794)**	**–**	(390)	–
Outstanding at 30 September	**6,776**	**–**	2,734	–
Exercisable at 30 September	**–**	**–**	–	–

	2019 Weighted average remaining life years		2018 Weighted average remaining life years	
Range of exercise prices	**Expected**	**Contractual**	Expected	Contractual
N/A	**1.5**	**1.5**	1.6	1.6

Share options

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

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

In the year, 1,002,584 (2018: 1,363,310) options were granted under the terms of the Save and Share Plan.

14 Equity continued

14.2 Share-based payments continued

As part of certain acquisitions, the Group awards certain employees with options proportional to previously held options in the company acquired. Nil (2018: 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:

	2019 Number '000s	**2019** Weighted average exercise price £	2018 Number '000s	2018 Weighted average exercise price £
Outstanding at 1 October	**5,319**	**1.92**	6,542	1.85
Awarded	**–**	**–**	–	–
Forfeited	**(97)**	**3.41**	(292)	2.93
Exercised	**(1,006)**	**1.35**	(931)	1.09
Outstanding at 30 September	**4,216**	**2.03**	5,319	1.92
Exercisable at 30 September	**3,282**	**1.65**	3,396	1.34

	2019 Weighted average remaining life years		2018 Weighted average remaining life years	
Range of exercise prices	**Expected**	**Contractual**	Expected	Contractual
22p-681p	**1.7**	**6.0**	1.1	7.0

14.3 Other reserves

	Translation reserve £m	**Merger reserve £m**	**Total other reserves £m**
At 1 October 2017	70	61	131
Exchange differences on translating foreign operations	15	–	15
At 30 September 2018	**85**	**61**	**146**
Exchange differences on translating foreign operations	**42**	**–**	**42**
Exchange differences recycled through income statement on sale of foreign operations	**(4)**	**–**	**(4)**
At 30 September 2019	**123**	**61**	**184**

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.

14.4 Retained earnings

Retained earnings	2019 £m	2018 £m
At 1 October	**621**	477
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	**266**	295
Actuarial loss on post-employment benefit obligations (note 10)	**(1)**	–
Gain on available-for-sale fixed asset investment	**–**	1
Value of employee services including deferred tax	**33**	16
Proceeds from issuance of treasury shares	**3**	3
Dividends paid to owners of the parent (note 14.5)	**(181)**	(171)
Total	**760**	621

Treasury shares

Purchase of treasury shares
Shares purchased under the Group's buyback programme are not cancelled but are retained in issue and represent a deduction from equity attributable to owners of the parent. During the year the Group agreed to satisfy the vesting of certain share awards, utilising a total of 3,781,720 (2018: 3,022,375) treasury shares.

At 30 September 2019 the Group held 31,699,170 (2018: 35,480,890) 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 35,792 ordinary shares in the Company (2018: 254,525) at a cost of £nil (2018: £2m) and a nominal value of £nil (2018: £nil).

During the year, the Trust agreed to satisfy the vesting of certain share awards, utilising a total of 368,733 (2018: 707,190) shares held in the Trust. The Trust received £2m (2018: £nil) additional funds for future purchase of shares in the market (2018: nil funds received).

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 2019 was £nil (2018: £1m).

14.5 Dividends

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

	2019 £m	2018 £m
Final dividend paid for the year ended 30 September 2018 of 10.85p per share	**118**	–
(2018: final dividend paid for the year ended 30 September 2017 of 10.20p per share)	**–**	110
Interim dividend paid for the year ended 30 September 2019 of 5.79p per share	**63**	–
(2018: interim dividend paid for the year ended 30 September 2018 of 5.65p per share)	**–**	61
	181	171

In addition, the Directors are proposing a final dividend in respect of the financial year ended 30 September 2019 of 11.12p per share which will absorb an estimated £121m of shareholders' funds. If approved at the AGM, it will be paid on 2 March 2020 to shareholders who are on the register of members on 7 February 2020. 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 acquisition of subsidiaries is accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

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

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

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

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

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.

15.1 Acquisitions

Acquisitions made during the current year

On 27 September 2019, the Group acquired 100% of the equity capital of Ocrex Limited ("Ocrex") for total consideration of £42m paid in cash. Ocrex is a leading provider of data entry automation for 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.

Summary of acquisition	Provisional fair values £m
Purchase consideration	
Cash	42
Provisional fair value of identifiable net assets	1
Goodwill	41

The provisional fair value of identifiable net assets comprises cash and cash equivalents of £1m. Provisional fair values have been determined as the purchase price allocation exercise is incomplete because of the short period between the acquisition date and the approval of the Annual Report. Pending completion of the fair value exercise, the residual excess of consideration over the net assets acquired has been provisionally recognised entirely as goodwill. Goodwill is expected to reflect benefits from the assembled workforce and growth opportunities. No goodwill is expected to be deductible for tax purposes.

The outflow of cash and cash equivalents on the acquisition is as follows:	£m
Cash consideration	(42)
Cash and cash equivalents acquired	1
Net cash outflow	(41)

Costs of £2m directly relating to the completion of the business combination have been included in selling and administrative expenses in the consolidated income statement as other M&A activity-related items and relate to advisory, legal and other professional services. Arrangements have been put in place for retention payments to remunerate employees of Ocrex for future services. The costs of these arrangements will be recognised in future periods over the retention period. No amounts have been recognised to date in respect of these arrangements. The consolidated income statement does not include any revenue or profit or loss reported by Ocrex for the period due to the acquisition date being close to the year end date. The revenue and profit of the Group for the year ended 30 September 2019 would not have been materially different if Ocrex had been included in the Group for the whole of the year.

15.2 Costs relating to business combinations in the year

Costs directly relating to completion of the business combinations in the year of £2m (2018: £1m) 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 Acquisitions and disposals continued

15.3 Disposals and discontinued operations

Disposals made during the current year

On 21 February 2019, the Group completed the sale of Sage Payroll Solutions, the US-based payroll outsourcing business ("SPR") for total consideration of £76m. On 18 July 2019, the Group completed the sale of its South African payments business for £5m. The gain on disposal is calculated as follows:

Gain on disposal	SPR £m	South African payments £m	Total £m
Cash consideration	71	3	74
Deferred consideration	–	2	2
Contingent consideration	5	–	5
Gross consideration	76	5	81
Transaction costs	(4)	–	(4)
Net consideration	72	5	77
Net assets disposed	(51)	(2)	(53)
Cumulative foreign exchange differences reclassified from other comprehensive income to the income statement	6	(2)	4
Gains on disposal	**27**	**1**	**28**

Net assets disposed comprise:

	SPR £m	South African payments £m	Total £m
Goodwill	28	1	29
Other intangible assets	25	–	25
Trade and other receivables	1	1	2
Cash and cash equivalents	91	26	117
Total assets	**145**	**28**	**173**
Trade and other payables	(93)	(26)	(119)
Deferred income tax liabilities	(1)	–	(1)
Total liabilities	**(94)**	**(26)**	**(120)**
Net assets	**51**	**2**	**53**

The gains are reported within continuing operations, as an adjustment between underlying and statutory results. The contingent consideration is measured at its fair value 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.

Prior to the disposals, SPR formed part of the Group's North America reporting segment and South African payments part of the International segment. The inflow of cash and cash equivalents on the disposal is calculated as follows:

Inflow of cash and cash equivalents on disposal	SPR £m	South African payments £m	Total £m
Cash consideration	71	3	74
Transaction costs	(4)	–	(4)
Net consideration received	**67**	**3**	**70**

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 2019 or 30 September 2018. Assets and liabilities held for sale at 30 September 2019 relate to the subsidiaries forming the Group's Sage Pay and Brazilian businesses, which were classified as held for sale during the year. The sale of the Group's Brazilian businesses is expected to be finalised during the year ending 30 September 2020. An agreement was signed on 18 November 2019, for the sale of the Sage Pay business to Elavon Inc., a subsidiary of U.S. Bancorp (as disclosed in note 19). The transaction is subject to regulatory approval with completion and loss of control expected to occur in Q2 FY20. The Sage Pay business forms part of the Group's Northern Europe reportable segment, and the Brazilian business is part of the International segment.

On classification of the Brazilian business as held for sale, the Group recognised a write down of net assets of £19m, comprising £14m impairment of assets and £5m provision for future selling costs, to reduce the carrying value of the business to its fair value less costs to sell. This is included within selling and administrative expenses in the income statement as an adjustment between underlying and statutory operating profit (see note 3.6). Note that the fair value less costs of sale of the disposal groups held for sale was determined using observable inputs that required some adjustments using unobservable data, leading to level 3 classification when considering the fair value hierarchy under IFRS 13.

Upon disposal, the income in relation to cumulative foreign exchange differences that have been recognised in other comprehensive income relating to the assets and liabilities of these businesses from the date of their acquisition to the date of disposal will be recycled to the income statement. Assets and liabilities held for sale at 30 September 2018 relate to the Group's subsidiary Sage Payroll Solutions which was sold on 21 February 2019.

Assets and liabilities held for sale comprise:

	Brazil 2019 £m	**Sage Pay 2019 £m**	**Total 2019 £m**	Total 2018 £m
Goodwill	**–**	**26**	**26**	32
Other intangible assets	**–**	**1**	**1**	20
Property, plant and equipment	**–**	**2**	**2**	–
Deferred income tax asset	**7**	**–**	**7**	–
Inventory	**–**	**1**	**1**	–
Trade and other receivables	**16**	**6**	**22**	3
Cash and cash equivalents	**–**	**4**	**4**	58
Total assets	**23**	**40**	**63**	113
Trade and other payables	**(8)**	**(4)**	**(12)**	(62)
Borrowings	**(3)**	**–**	**(3)**	–
Current income tax liabilities	**(1)**	**–**	**(1)**	–
Provisions	**(6)**	**–**	**(6)**	–
Deferred income	**(10)**	**(1)**	**(11)**	(1)
Total liabilities	**(28)**	**(5)**	**(33)**	(63)
Net (liabilities)/assets	**(5)**	**35**	**30**	50

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. Prior to 17 March 2018, related parties also included the Group's investment in its associated undertaking. 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 15

This note provides information on the changes resulting from the adoption of IFRS 15, quantitative information on their impact at 1 October 2018 and a reconciliation for the year ending 30 September 2019 between the primary financial statements under IFRS 15 and the financial position and performance that would have been reported in accordance with IAS 18.

Differences between IFRS 15 and previous accounting policies

There are several differences between the Group's accounting policies under IFRS 15 and its previous accounting policies under IAS 18. The most significant of these are as follows.

- *Unbundling of subscription software and related maintenance and support contracts for on-premise products*
  IFRS 15 introduces a new concept of performance obligations. This requires changes to the way the transaction price is allocated to separately identifiable components of a bundle within a contract, which can impact the timing of recognising revenue. As a result, the revenue recognition pattern changes for certain on-premise subscription contracts, which combine the delivery of software and support services and the obligation to deliver, in the future, unspecified software upgrades under a maintenance contract. Under IAS 18 policies, the Group recognised the entire price as revenue on a straight-line basis over the subscription term. Under IFRS 15, a portion of the transaction price is recognised upon delivery of the initial software at the outset of the arrangement with the remainder recognised over the term of the contract due to the fact that these are deemed to be separate performance obligations.
- *Non-refundable contract sign-up fees*
  In some cases, customers pay a non-refundable contract sign-up fee when they enter into a new initial contract for a software product, and no equivalent fee is payable on subsequent renewals. As a result of paying the contract sign-up fee, the customer has an option to renew the contract and to pay a lower price on renewal than would have been the case had the contract sign-up fee not been paid. Under IFRS 15, the fee is considered to provide the customer with a material right that the customer would not receive without having entered into the initial contract. Therefore, the upfront fee is recognised as revenue over the anticipated period of benefit to the customer, which ranges from four to seven years and takes account of the likelihood of the customer renewing the contract. Under IAS 18 policies, the full amount of the contract sign-up fee was recognised as revenue on a straight-line basis over the initial contract term.
- *Costs of obtaining customer contracts*
  Under IFRS 15, all incremental costs of obtaining a contract with a customer, including commission to internal sales employees, are recognised as an asset on the balance sheet, within trade and other receivables, if the Group expects to recover those costs. The costs are amortised over the period during which the related revenue is recognised, which may extend beyond the initial contract term where the Group expects to benefit from future renewals as a result of incurring the costs. The amortisation periods range from one year to ten years depending on the type of offering. Amortisation is reported within selling and administrative expenses. Under previous policies, costs to obtain a contract were recognised as assets, within trade and other receivables, and amortised only if they were payable to a third-party agent and related to a contract where revenue was recognised over time. As a result, compared to previous policies the amount recognised as an asset under IFRS 15 increases and the recognition of costs is deferred.
- *Business partner arrangements*
  Under IFRS 15, the Group is required to assess whether it controls a good or service before it is transferred to the end customer to determine whether it is principal or agent in that transaction. This is in contrast to the previous guidance which was focused on assessing whether the Group had the risks and rewards of a principal. For Sage, the application of IFRS 15 results in a change in principal versus agent assessment for a number of business partner arrangements. The Group has therefore identified an increase in the number of business partner arrangements where Sage is considered to be the principal under IFRS 15 with respect to the end customer. As a result, there is an increase in the gross revenue recognised for these arrangements as the amounts payable to business partners are classified as a cost of sale rather than a deduction from revenue. On the balance sheet, the unamortised amounts payable to business partners which were previously netted within deferred income are now presented as part of customer acquisition costs.
- *Timing of recognising a receivable*
  Under IFRS 15, a receivable is recognised when the right to consideration is unconditional. Typically, for a non-cancellable contract this happens when the Group starts providing the service. Under IAS 18 receivables were recognised based on the billing arrangement agreed under the contract, even where the contract was not unconditional or the group had not started providing services under the contract. As a result, compared to previous policies the amount recognised as a receivable decreased with a corresponding decrease in deferred income.

Quantitative impact of policy changes on consolidated balance sheet at 1 October 2018

The financial impact of the policy changes explained above on the Group's consolidated balance sheet on initial application is as follows:

	Unbundling of subscription software £m	Non-refundable contract sign-up fees £m	Costs of obtaining customer contracts £m	Business partner arrangements £m	Timing of recognising a receivable £m	Other adjustments £m	Tax impact £m	Total Impact £m
								As at 1 October 2018
Non-current assets								
Trade and other receivables	–	–	34	–	–	–	–	34
Deferred income tax assets	–	–	–	–	–	–	(4)	(4)
Current assets								
Trade and other receivables	–	–	4	16	(43)	–	–	(23)
Current liabilities								
Deferred income	21	(21)	–	(16)	43	(6)	–	21
Non-current liabilities								
Deferred income tax liabilities	–	–	–	–	–	–	(4)	(4)
Net assets	21	(21)	38	–	–	(6)	(8)	24
Total equity	21	(21)	38	–	–	(6)	(8)	24

Primary statements under IAS 18

The Group's consolidated financial statements for the year ended 30 September 2019 are prepared in accordance with IFRS 15; comparative periods have not been restated. Where there are differences between the primary consolidated financial statements presented in accordance with IFRS 15 and comparable presentation under the Group's previous revenue accounting policy (in accordance with IAS 18 "Revenue"), the effects are disclosed below. The Group's consolidated statement of cash flows is not affected by the implementation of IFRS 15 and so is not re-presented.

Consolidated income statement (reconciliation to IAS 18)

Year ended 30 September 2019	IFRS 15 basis £m	Adjustments £m	IAS 18 basis £m
Revenue	1,936	(8)	1,928
Cost of sales	(138)	(6)	(144)
Gross profit	1,798	(14)	1,784
Selling and administrative expenses	(1,416)	7	(1,409)
Operating profit	382	(7)	375
Finance income	8	–	8
Finance costs	(29)	–	(29)
Profit before income tax	361	(7)	354
Income tax expense	(95)	2	(93)
Profit for the year	266	(5)	261
Profit attributable to:			
Owners of the parent	266	(5)	261
Earnings per share attributable to the owners of the parent (pence)			
– Basic	24.49p		24.03p
– Diluted	24.29p		23.83p

Under IFRS 15 basis revenue from software licence and support showed a net increase of £8m, with most of the difference resulting from an increase in the number of business partner arrangements where the end user is considered to be the customer for the Group and by upfront recognition of software for certain on-premise subscription contracts. This is mitigated by a revised revenue pattern for non-refundable contract sign-up fees which are spread over the anticipated period of benefit to the customer.

Cost of sales showed a net decrease of £6m, with most of the difference resulting from business partner arrangements where there is a change in principal versus agent assessment for third-party products.

Selling and administrative expenses showed a net increase of £7m, with most of the difference resulting from an increase in the number of business partner arrangements where the end user is considered to be the customer under IFRS 15. This is mitigated by higher capitalisation of sales commissions offset by the related amortisation charge.

Consolidated balance sheet (reconciliation to IAS 18)

30 September 2019	IFRS 15 basis £m	Adjustments £m	IAS 18 basis £m
Non-current assets			
Goodwill	2,098	–	2,098
Other intangible assets	228	–	228
Property, plant and equipment	117	–	117
Fixed asset investment	–	–	–
Other financial assets	4	–	4
Trade and other receivables	73	(65)	8
Deferred income tax assets	31	1	32
	2,551	(64)	2,487
Current assets			
Trade and other receivables	364	11	375
Current income tax asset	3	–	3
Cash and cash equivalents (excluding bank overdrafts)	371	–	371
Assets classified as held for sale	63	(1)	62
	801	10	811
Total assets	3,352	(54)	3,298
Current liabilities			
Trade and other payables	(291)	–	(291)
Current income tax liabilities	(32)	2	(30)
Borrowings	(122)	–	(122)
Provisions	(11)	–	(11)
Deferred income	(637)	16	(621)
Liabilities classified as held for sale	(33)	–	(33)
	(1,126)	18	(1,108)
Non-current liabilities			
Borrowings	(643)	–	(643)
Post-employment benefits	(25)	–	(25)
Deferred income tax liabilities	(24)	7	(17)
Provisions	(15)	–	(15)
Trade and other payables	(7)	–	(7)
Deferred income	(8)	–	(8)
	(722)	7	(715)
Total liabilities	(1,848)	25	(1,823)
Net assets	1,504	(29)	1,475
Equity attributable to owners of the parent			
Ordinary shares	12	–	12
Share premium	548	–	548
Other reserves	184	–	184
Retained earnings	760	(29)	731
Total equity	1,504	(29)	1,475

17 IFRS 15 continued

Under IFRS 15 basis non-current trade and other receivables are higher by £65m (FY18: higher by £34m) due to the higher capitalisation of sales commissions.

Current trade and other receivables are lower by £11m (FY18: £23m) resulting from changes in the timing of and amounts recognised as receivables and the capitalisation of business partner commissions where the end user is considered to be the customer under IFRS 15, with corresponding impact in current deferred income.

Current deferred income is higher by £16m (FY18: £21m), resulting from revised revenue pattern for non-refundable contract sign-up fees which are spread over the anticipated period of benefit to the customer and the capitalisation of business partner commissions where the end user is considered to be the customer under IFRS 15, with corresponding impact in current deferred income. This is mitigated by changes in the timing of and amounts recognised as receivables and by upfront recognition of software for certain on-premise subscription contracts.

Deferred income tax assets are lower by £1m (FY18: £4m), current income tax liabilities and deferred income tax liabilities are higher by £2m and £7m (FY18: £nil and £4m respectively) due to the tax impact of the above adjustments.

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. 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	7 Catherine Ct, Yarra Glen, Vic 3775, 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	Providence House, East Hill Street, 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
Brazil	IOB Informações Objetivas Publicações Jurídicas Ltda.	Rua Antonio Nagib Ibrahim, 350, São Paulo, São Paulo, CEP 05036-60, Brazil
Brazil	Sage Brasil 3 Empreendimentos e Participações Ltda	Rua Antônio Nagib Ibrahim, 350, Part A, Água Branca, São Paulo, São Paulo, CEP 05036-060, Brazil
Brazil	Sage Brasil Software S.A.	Rodovia Luiz de Queiroz (SP 304), Km 127,5, Bairro Nova Americana, São Paulo, CEP 13466-170, Brazil
Brazil	Sytax Sistemas S.A.	Rua Antonio Nagib Ibrahim, 350, Part B, São Paulo, São Paulo, CEP 05036-060, Brazil
Canada	Sage Software Canada Ltd.	111, 5th Avenue SW, Suite 3100-C, Calgary AB T2P 5L3, Canada
France	Sage Holding France SAS	Atrium Defense, Paris la Defense, 10 Place de Belgique, 92250, Le Garenne Colombes, Paris, France
France	Sage Overseas Limited (Branch Registration)	Atrium Defense, Paris la Defense, 10 Place de Belgique, 92250, Le Garenne Colombes, Paris, France

Country	Name	Registered Address
France	Sage SAS	Atrium Defense, Paris la Defense, 10 Place de Belgique, 92250, Le 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 Pay 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 Entreprises Private Limited	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 Pay (Dublin) Limited	Number One Central Park Leopardstown, Dublin 18, Ireland
Ireland	Sage Pay Ireland Limited	Number One Central Park Leopardstown, Dublin 18, Ireland
Ireland	Sage Technologies Limited	Number One Central Park Leopardstown, Dublin 18, Ireland
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
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	Sage Software Sdn Bhd	Suite B13A-4, Tower B, Level 13A, Northpoint Offices, Mid Valley City, No. 1 Medan Syed Putra Utara, 59200 Kuala Lumpur
Morocco	Sage Software	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. Limited	12 Marina View, #25-02/03 Asia Square Tower 2, 01896, Singapore
Singapore	Sage Software Asia Pte. Limited	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

18 Group undertakings continued

Country	Name	Registered Address
Spain	Sage Pay S.L.U.	C/ Labastida, 10-12 28934, Madrid, Spain
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.	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
Tunisia	Ulysoft	Immeuble Mélika, rez de chausse, rue Lac Windermere, Berge du Lac, 1053, Tunisia
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, Frimley Road, Frimley, Camberley, Surrey, GU19 5EW, 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 Brazilian Investment One Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Brazilian Investment Two Limited	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
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 Pay (GB) Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Pay Europe Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Payments (UK) Ltd.	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	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

Country	Name	Registered Address
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.	270 17th Street NW, Suite 1100 Atlanta, Georgia 30363, United States
United States	Sage Software Holdings, Inc.	271 17th Street NW, Suite 1100 Atlanta, Georgia 30363, United States
United States	Sage Software International, Inc.	272 17th Street NW, Suite 1100 Atlanta, Georgia 30363, United States
United States	Sage Software North America	273 17th Street NW, Suite 1100 Atlanta, Georgia 30363, United States
United States	Sage Software, Inc.	274 17th Street NW, Suite 1100 Atlanta, Georgia 30363, United States
United States	Sage Tempus, Inc.	275 17th Street NW, Suite 1100 Atlanta, Georgia 30363, United States
United States	Softline Holdings USA, Inc.	276 17th Street NW, Suite 1100 Atlanta, Georgia 30363, United States
United States	Softline Software USA, LLC	277 17th Street NW, Suite 1100 Atlanta, Georgia 30363, United States
United States	Softline Software, Inc.	278 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

* Direct subsidiary

19 Post-balance sheet events

An agreement was signed on 18 November 2019, for the sale of the Group's Sage Pay business for £232m (subject to customary debt and working capital adjustments) to Elavon Inc., a subsidiary of U.S. Bancorp. Sales proceeds are payable in cash upon completion. The business was classified as held for sale at 30 September 2019 (see note 15.3) and is part of the Group's Northern Europe reportable segment. Completion of the transaction and loss of control is expected to occur in Q2 FY20, subject to Elavon Inc. obtaining regulatory approval by the Board of Governors of the Federal Reserve System in the United States as well as the Central Bank of Ireland. The statutory gain on the transaction is expected to be approximately £180m on completion.

The board has approved a capital return of £250m, largely reflecting the expected proceeds from the disposal of Sage Pay.

Company financial statements

Notes to the Company financial statements

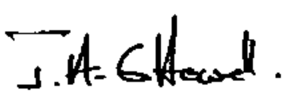
COMPANY BALANCE SHEET

At 30 September 2019

	Note	**2019 £m**	2018 £m
Non-current assets: investments	2	**3,088**	3,088
Current assets			
Cash at bank and in hand	3	**2**	1
Debtors – amounts due greater than one year £418m (2018: £378m)	4	**1,120**	1,052
		1,122	1,053
Creditors: amounts falling due within one year			
Trade and other payables	5	**(1,420)**	(1,219)
Net current liabilities		**(298)**	(166)
Total assets less current liabilities		**2,790**	2,922
Net assets		**2,790**	2,922
Capital and reserves			
Called up share capital	7.1	**12**	12
Share premium account		**548**	548
Other reserves	7.2	**(77)**	(94)
Profit and loss account		**2,307**	2,456
Total shareholders' funds		**2,790**	2,922

The Company's profit for the year was £14m (2018: £103m).

The financial statements on pages 207 to 213 were approved by the Board of Directors on 19 November 2019 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 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**

	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 2017	12	548	(107)	2,516	2,969
Profit for the year	–	–	–	103	103
Total comprehensive income for the year ended 30 September 2018	–	–	–	103	103
Transactions with owners:					
Employee share option scheme:					
– Value of employee services, net of deferred tax	–	–	–	18	18
Utilisation of treasury shares	–	–	13	(13)	–
Proceeds of issuance of treasury shares	–	–	–	3	3
Dividends paid to owners of the parent	–	–	–	(171)	(171)
Total transactions with owners for the year ended 30 September 2018	–	–	13	(163)	(150)
At 30 September 2018	12	548	(94)	2,456	2,922

COMPANY ACCOUNTING POLICIES

Company accounting policies

Statement of compliance

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

Basis of accounting

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

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

- a statement of cash flows and related disclosures under Section 7 Statement of Cash Flows and Section 3 Financial Statement Presentation paragraph 3.17(d);
- disclosures about financial instruments under Section 11 Basic Financial Instruments 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. 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)	2019 number	2018 number
By segment:		
Northern Europe	**27**	112

Staff costs (including Directors on service contracts)	2019 £m	2018 £m
Wages and salaries	**6**	10
Social security costs	**2**	2
Post-employment benefits	**–**	1
Share-based payments	**–**	2
	8	15

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 £30,000 (2018: £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 96 to 123.

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 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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1 Dividends

	2019 £m	2018 £m
Final dividend paid for the year ended 30 September 2018 of 10.85p per share	**118**	–
(2018: final dividend paid for the year ended 30 September 2017 of 10.20p per share)		110
Interim dividend paid for the year ended 30 September 2019 of 5.79p per share	**63**	–
(2018: interim dividend paid for the year ended 30 September 2018 of 5.65p per share)	**–**	61
	181	171

In addition, the Directors are proposing a final dividend in respect of the financial year ended 30 September 2019 of 11.12p per share which will absorb an estimated £121m of shareholders' funds. If approved at the AGM, it will be paid on 2 March 2020 to shareholders who are on the register of members on 7 February 2020. 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 1 October 2018	3,224
At 30 September 2019	**3,224**
Provision for diminution in value	
At 1 October 2018	136
At 30 September 2019	**136**
Net book value	
At 30 September 2019	**3,088**
At 30 September 2018	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 2019, are shown in note 18 of the Group financial statements. All of these subsidiary undertakings are wholly-owned. All subsidiaries are engaged in the development, distribution and support of business management software and related products and services for small and medium-sized businesses.

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

3 Cash at bank and in hand

	2019 £m	2018 £m
Cash at bank and in hand	**2**	1

4 Debtors

	2019 £m	2018 £m
Prepayments and accrued income	**1**	1
Other debtors	**2**	–
Amounts owed by Group undertakings	**1,117**	1,051
	1,120	1,052

Of amounts owed by Group undertakings £418m (2018: £378m) is due greater than one year, on which interest is charged at 4.2% and is repayable in full on 21 October 2023 but may be repaid, in whole or in part, in advance of this date at the option of the borrower.

5 Trade and other payables

	2019 £m	2018 £m
Amounts owed to Group undertakings	**1,414**	1,216
Accruals and deferred income	**6**	3
	1,420	1,219

Amounts owed to Group undertakings are unsecured and attract a rate of interest of between 0.0% and 6.8% (2018: 0.0% and 8.3%).

6 Obligations under operating leases

	2019	2018
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	**2**	1
Later than one year and less than five years	**5**	5
After five years	**20**	3
	27	9

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 14/77 pence each	**2019 shares**	**2019 £m**	2018 shares	2018 £m
At 1 October	**1,120,789,295**	**12**	1,120,638,121	12
Proceeds from shares issued	**–**	**–**	151,174	–
At 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 2018	(157)	61	2	(94)
Utilisation of treasury shares	**17**	**–**	**–**	**17**
At 30 September 2019	**(140)**	**61**	**2**	**(77)**

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

Treasury shares

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 no treasury shares (2018: none).

During the year the Group agreed to satisfy the vesting of certain share awards, utilising a total of 3,781,720 (2018: 3,022,375) treasury shares. The Group gifted nil shares (2018: nil) to the Employee Share Trust.

At 30 September 2019 the Group held 31,699,170 (2018: 35,480,890) of treasury shares.

Employee Share Trust

The Company holds treasury shares in a trust which was set up for the benefit of Group employees. The Trust purchases the Company's shares in the market or is gifted them by the Company for use in connection with the Group's share-based payments arrangements. The Trust holds 35,792 ordinary shares in the Company (2018: 254,525) at a cost of £nil (2018: £2m) and a nominal value of £nil (2018: £nil).

During the year, the Trust agreed to satisfy the vesting of certain share awards, utilising a total of 368,733 (2018: 707,190) shares held in the Trust. The Trust received £2m (2018: £nil) additional funds for future purchase of shares in the market (2018: nil funds received).

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 2019 was £nil (2018: £1m).

Non-GAAP measures

Measure/Description	Rationale
Underlying (revenue and profit) measures	
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.	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.
Organic (revenue and profit) measures	
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, at which point they are included for the full current and prior period; and For FY19 this includes the impact of IFRS15. FY18 is restated to reflect proforma adjustments for the areas of impact of IFRS 15 adoption assuming the same contractual basis as FY19. Acquisitions and disposals which occurred close to the start of the opening comparative period where the contribution impact would be immaterial are not adjusted. Please note that organic operating profit margin as reported is not necessarily comparable from period to period.	Organic measures allow management and investors to understand the like-for-like revenue and current period margin performance of the continuing business. During FY19, the organic measure adjusts the prior period (FY18) for IFRS15 to enable like-for-like comparison across the periods.
Underlying Cash Flow from Operating Activities	
Underlying Cash Flow from Operating Activities is Underlying Operating Profit adjusted for non-cash items, net capex (excluding business combinations and similar items) and changes in working capital.	To show the cashflow generated by the operating activities and calculate underlying cash conversion.
Underlying Cash Conversion	
Underlying Cash Flow from Operating Activities divided by Underlying Operating Profit.	Cash conversion informs management and investors about the cash operating cycle of the business and how efficiently operating profit is converted into cash.
EBITDA	
EBITDA is Underlying Operating Profit excluding depreciation, amortisation and share based payments.	To calculate the Net Debt to EBITDA leverage ratio and to show profitability before the impact of major non-cash charges.
Annualised recurring revenue	
Annualised recurring revenue ("ARR") is the normalised reported organic recurring revenue in the last month of the reporting period, adjusted consistently period to period, multiplied by twelve. Adjustments to normalise reported recurring revenue include those components that management has assessed should be excluded in order to ensure the measure reflects that part of the contracted revenue base which (subject to ongoing use and renewal) can reasonably be expected to repeat in future periods (such as non-refundable contract sign-up fees).	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.
Renewal Rate by Value	
The ARR from renewals, migrations, upsell and cross-sell of active customers at the start of the year, divided by the opening ARR for the year.	As an indicator of our ability to retain and generate additional revenue from our existing customer base through up and cross sell.
Free Cash Flow	
Free Cash Flow is Cash Flow from Operating Activities 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.

Measure/Description	Rationale
% 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	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 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.
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.

A&RC
Audit and Risk Committee

AAMEA
Africa Australia Middle East Asia

AGM
Annual General Meeting

API
Application Program Interface

C4L
Customer For Life

CAGR
Compound Annual Growth Rate

CDP
Carbon Disclosure Project

CFO
Chief Financial Officer

CGU
Cash Generating Unit

CMD
Capital Markets Day

CR
Corporate Responsibility

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

ESOS
Executive Share Operating Scheme

EU
European Union

FCF
Free Cash Flow

FY16
Financial year ending 30 September 2016

FY17
Financial year ending 30 September 2017

FY18
Financial year ending 30 September 2018

FY19
Financial year ending 30 September 2019

G&A
General and Administrative

GAC
Global Accounting Core

GHG
Green House Gas

HR
Human Resources

HCM
Human Capital Management

IFRS
International Financial
Reporting Standards

ISV
Independent Software Vendor

KPI
Key Performance Indicator

LSE
London Stock Exchange

LTIP
Long Term Incentive Plan

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

S&M
Sales and Marketing

SaaS
Software as a Service

SSRS
Software & Software Related Services

TSR
Total Shareholder Return

VSGM
Vision, Strategy, Goals, Measures

SHAREHOLDER INFORMATION

Financial calendar

Annual General Meeting

Dividend payments	
Final payable – year ended 30 September 2019	2 March 2020
Interim payable – period ending 31 March 2020	12 June 2020
Results announcements	
Interim results – period ending 31 March 2020	13 May 2020
Final results – year ending 30 September 2020	20 November 2020

Shareholder information online

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

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

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

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

Stay up to date at www.sage.com

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Corporate brokers and financial advisers

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London, EC2V 7HN

Independent auditors

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(from outside the UK: +44 (0)1903 698403)

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 the Group's website which can be found at: www.sage.com/investors

Investor enquiries

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