Financial statements

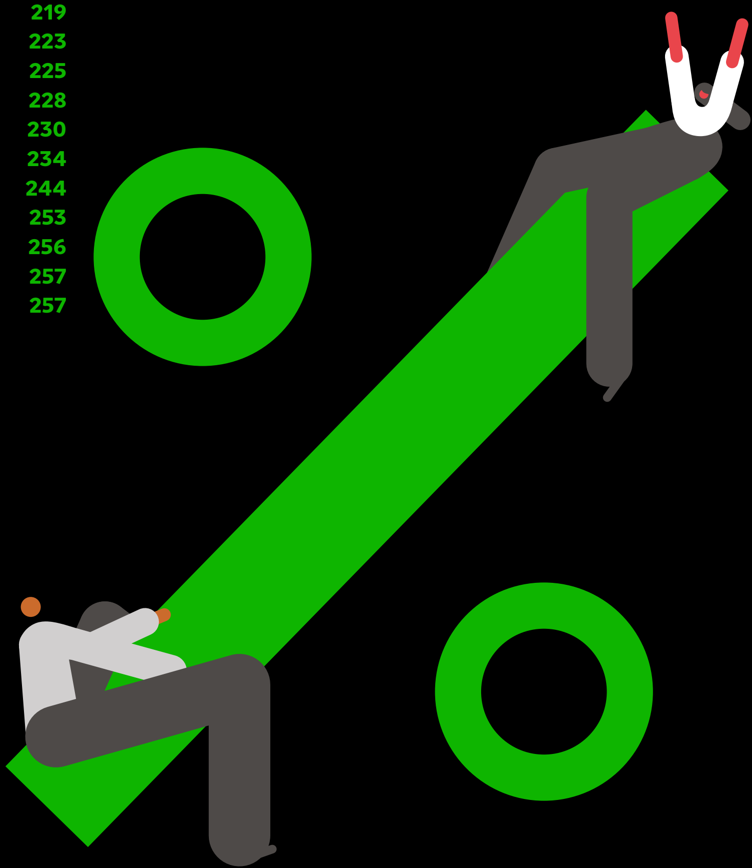
	Pages
Independent Auditor's Report to the members of The Sage Group plc.	**172**

Consolidated financial statements

Consolidated income statement	182
Consolidated statement of comprehensive income	183
Consolidated balance sheet	184
Consolidated statement of changes in equity	185
Consolidated statement of cash flows	187

Notes to the consolidated financial statements

1. Basis of preparation and accounting estimates and judgements	188
2. Segment information	191
3. Profit before income tax	197
4. Income tax expense	207
5. Earnings per share	210
6. Intangible assets	212
7. Property, plant and equipment	217
8. Equity investments	219
9. Working capital	219
10. Provisions	223
11. Post-employment benefits	225
12. Deferred income tax	228
13. Cash flow and net debt	230
14. Financial instruments	234
15. Equity	244
16 Acquisitions and disposals	253
17. Related party transactions	256
18. Events after the balance sheet date	257
19. Group undertakings	257



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

Opinion

In our opinion:

- The Sage Group plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 30 September 2023 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of The Sage Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 30 September 2023 which comprise:

Group	Parent company
Consolidated balance sheet as at 30 September 2023	Company Balance sheet as at 30 September 2023
Consolidated income statement for the year then ended	Company Statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Related notes 1 to 8 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 UK adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the group and parent in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included:

- We understood the process undertaken by management to perform the going concern assessment;

- We obtained management's going concern assessment, including the cash flow forecast for the going concern period to 31 March 2025. We assessed whether the period applied is appropriate, through considering the existence of any significant events or conditions beyond this period based on management's forecasting and knowledge arising from the audit that should be taken into account in the going concern assessment;
- We confirmed the Group's access to available sources of liquidity and the relevant maturity dates;
- We assessed the reasonableness of all key assumptions, with a particular focus on New Customer Acquisition ('NCA'), churn, margin and working capital. This has been performed by:
  - assessing the historical forecasting accuracy of the Group by comparing actual revenue and underlying profit to forecast for the previous five years;
  - checking for consistency of the forecasts with other areas of the audit including the goodwill and other intangibles impairment assessment; and
  - assessing whether the assumptions made were reasonable, through our own independent assessment of the impact of the current macro-economic environment and considering whether this contradicted any of the assumed growth.
- We also considered the impact of Sage's climate commitments on the cash flow forecasts;
- We reperformed management's reverse stress test to establish the level of change in revenue necessary to cause a liquidity breach and considered whether the reduction in revenue required has no more than a remote possibility of occurring; and
- We reviewed the appropriateness of management's going concern disclosure in describing the risks associated with its ability to continue to operate as a going concern from the date of the approval of the financial statements to 31 March 2025.

We observed that in both management's base case and in the downside sensitivities, with churn assumptions increasing by up to 75% and a significant reduction in the level of new customer acquisitions and sales to existing customers, management has determined that there is liquidity headroom without taking the benefit of any identified controllable mitigations.

Furthermore, management's reverse stress test identifies the revenue reduction compared to forecasts required to breach minimum liquidity thresholds during the going concern assessment period. The occurrence of a revenue reduction of this magnitude is considered by the Directors to be remote due to the resilient nature of the subscription business model, available liquidity and strong cash conversion.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for a period to 31 March 2025.

In relation to the group and parent company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Overview of our audit approach

Audit scope	• We performed an audit of the complete financial information of 7 components and audit procedures on specific balances for a further 3 components. • The components where we performed full or specific audit procedures accounted for 94% of Adjusted Profit before tax*, 93% of Revenue and 99% of Total assets.
Key audit matters	• Inappropriate timing of revenue recognition, due to cut-off errors or incorrect deferral • Recoverability of goodwill
Materiality	• Overall group materiality of £16.0m which represents 5% of Profit before tax adjusted for non-recurring items.

* Adjusted profit before tax is presented on an absolute basis

An overview of the scope of the parent company and group audits

Tailoring the scope

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

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 24 reporting components of the Group, we selected 10 components covering entities within the United Kingdom and Ireland, France, North America, Germany, Spain and South Africa, which represent the principal business units within the Group.

Of the 10 components selected, we performed an audit of the complete financial information of 7 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 3 components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 94% (2022: 94%) of the Group's Adjusted Profit before tax*, 93% (2022: 94%) of the Group's Revenue and 99% (2022: 98%) of the Group's Total assets. For the current year, the full scope components contributed 82% (2022: 80%) of the Group's Adjusted Profit before tax*, 75% (2022: 62%) of the Group's Revenue and 95% (2022: 90%) of the Group's Total assets. The specific scope component contributed 12% (2022: 14%) of the Group's Adjusted Profit before tax, 18% (2022: 32%) of the Group's Revenue and 4% (2022: 8%) of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

Of the remaining 14 components that together represent 6% of the Group's Adjusted Profit before tax*, none are individually greater than 3% of the Group's Adjusted Profit before tax*. For these components, we performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations, obtaining a sample of additional cash confirmations, and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statements.

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

	2023					2022			
Reporting components	**Number**	**% Group Adjusted Profit before tax***	**% Group Revenue**	**% Total assets**	**Note**	Number	% Group Adjusted Profit before tax*	% Group Revenue	% Total assets
Full scope	**7**	**82%**	**75%**	**95%**	**1,3**	6	80%	62%	90%
Specific scope	**3**	**12%**	**18%**	**4%**	**2,3**	4	14%	32%	8%
Full and specific scope coverage	**10**	**94%**	**93%**	**99%**		10	94%	94%	98%
Remaining components	**14**	**6%**	**7%**	**1%**	**4**	13	6%	6%	2%
Total Reporting components	**24**	**100%**	**100%**	**100%**		23	100%	100%	100%

* Adjusted profit before tax is presented on an absolute basis

Notes

1. There has been an increase in number of full scope components in the current period from 6 to 7 – Intacct is now included as a full scope component in the current year (FY22: specific scope) as the component contributes a more significant part of Group Adjusted Profit before tax. 3 of the 7 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 4 full scope components are – Intacct, UKI, France and North America (excluding Intacct).
2. Specific scope components are Germany, 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.
3. 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 four full scope components and three specific scope components). The Group audit risk in relation to the recoverability of goodwill was tested by the Primary audit team.
4. In the current year, the remaining 14 components contributed 6% of Adjusted Profit before tax* and the individual contribution of these components ranged from nil to 3% of the Group's Adjusted Profit before tax*. For these components, the Primary audit team performed other procedures including overall analytical review procedures and testing of consolidation journals, intercompany eliminations, a sample of cash confirmations, and foreign currency translation recalculations to respond to potential risks of material misstatement to the Group financial statements.

Changes from the prior year

The change in the total number of reporting components from 23 to 24 is a result of the acquisition of Corecon Technologies, Inc. during the period. As discussed above, the number of full scope components has increased from 6 to 7 in the current period. Intacct is now included as a full scope component following continued growth within the component and its increasing significance to overall group revenue and profits. This has reduced the number of specific scope components from 4 to 3.

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 7 full scope components, audit procedures were performed on 2 of these directly by the primary audit team. For the 5 full scope components and 3 specific scope components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The Group audit team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor, Kathryn Barrow, together with other group partners and senior members of the primary audit team, visits a series of component teams. During the current year's audit cycle, visits were undertaken by the primary audit team to the component teams in the United Kingdom, North America, France, and South Africa. These visits involved discussing the audit approach with the component team and any issues arising from their work, meeting with local management, attending closing meetings and reviewing relevant audit working papers on risk areas. The primary team interacted regularly with the component teams, where appropriate, during various stages of the audit, reviewed relevant working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Climate change

There has been increasing interest from stakeholders as to how climate change will impact companies. The Group has determined that the most significant future impacts from climate change on their operations will be from extreme weather events which may have an impact on workforce productivity, increasing cost of energy and carbon, hosting resilience and changing customer behaviour. These are explained on pages 44-45 in the Task Force for Climate related Financial Disclosures and on pages 74 to 81 in the principal risks and uncertainties. They have also explained their climate commitments on pages 32 to 33 in "Sustainability and Society". All of these disclosures form part of the "Other information," rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other information".

In planning and performing our audit we assessed the potential impacts of climate change on the Group's business and any consequential material impact on its financial statements.

The group has explained in Note 1 Basis of Preparation to the consolidated financial statements how they have reflected the impact of climate change in their financial statements. Governmental and societal responses to climate change risks are still developing and are interdependent upon each other, and consequently, financial statements cannot capture all possible future outcomes as these are not yet known. The degree of certainty of these changes means that they cannot be taken into account when determining asset and liability valuations under the requirements of UK adopted International Accounting Standards. As described in Note 1, there were no factors identified that would have a material impact on the Group's accounting estimates and judgements in the current year. The considerations in relation to goodwill impairment testing are set out in Note 6.1.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, physical and transition, their climate commitments, and ensuring that the effects of material climate risks disclosed on page 44 have been appropriately reflected by management in reaching their judgements in relation to modelling future cash flows used in the impairment assessments. We also challenged the Directors' considerations of climate change risks in their assessment of going concern and viability and associated disclosures.

Based on our work, we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

Key audit matters

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

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Inappropriate revenue recognition due to cut-off errors or incorrect deferral *Refer to the Audit and Risk Committee Report (page 121); Accounting policies (page 190); and Note 3.1 of the Consolidated Financial Statements (page 198-200)* The Group has reported revenues of £2,184 million (FY22: £1,947 million) with deferred income at 30 September 2023 of £752 million (FY22: £742 million). 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. The risk specifically relates to the inappropriate timing of revenue recognition, due to cut-off errors or incorrect deferral. Therefore, we assessed that overstatement of revenue presented a higher risk and a key audit matter.	**Walkthroughs and controls** • We performed walkthroughs of each significant class of revenue transactions and assessed the design effectiveness of key financial controls alongside related IT controls, however we did not test the operating effectiveness of these controls at all components. For two components, we tested the operating effectiveness of certain key controls within the revenue process. **Timing of revenue recognition, due to cut-off errors or incorrect deferral** • We evaluated management's determination of whether the nature of the Group's products and services resulted in the provision of a good or service at a point in time or over a contractual term, by reviewing a sample of customer contracts against the requirements of IFRS 15. This included the assessment of new or one-off transactions, by comparing the accounting treatment to the Group accounting policy and IFRS 15. The customer contracts take different forms depending upon the products/services sold and local legal practice. Our procedures included consideration as to whether this fulfilled the IFRS 15 definition of a 'contract with a customer'. • At all revenue generating full and specific scope components, we adopted a data analysis approach in relation to revenue and receivables. Our procedures involved testing full populations of transaction data for all significant revenue streams and included correlation analysis between invoiced revenue, receivables and cash, as well as analysis of credit notes. Where the postings did not follow our expectation, we investigated and assessed their validity by agreeing a sample of transactions back to source documentation. • In respect of deferred income, for products and services where revenue is earned over a contractual term, we: • Tested a sample of transactions to determine that the amount of revenue recognised in the year and the amount deferred at the balance sheet date were accurately calculated based on progress of the contract. • At certain components, with support from EY IT team members, we utilised data analysis to facilitate independent reperformance of certain management calculations, including deferred income. This included testing a sample of the data inputs against 3rd party evidence, such as the contract with the customer (as defined above). • We have performed cut-off testing for a sample of revenue items and credit notes booked either side of the year end date to determine that revenue was recognised in the period in which the performance obligation was fulfilled. **Management override** • Audit teams at full and specific scope components with significant revenue streams performed specific procedures to address the risk of management override, including testing to identify unusual, new or significant transactions or contractual terms and targeted journal entry testing over manual journal entries. **Disclosures** • We also considered the adequacy of the Group's disclosures relating to revenue recognition in note 1 (accounting estimates and judgments) and note 3.1 (Revenue) in the consolidated financial statements. We performed full and specific scope audit procedures over this risk area in 10 locations, which covered 93% of the risk amount, with the remaining 7% of revenue being covered by review scope procedures. These procedures included updating our understanding of the business alongside key processes, management enquiries and analytical review relative to budgets and prior periods.	Based on the procedures performed, we consider the timing of revenue recognition to be appropriate for the year ended 30 September 2023. We did not identify a material misstatement as a result of inappropriate revenue recognition due to cut-off errors or incorrect deferral.

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Recoverability of goodwill *Refer to the Audit and Risk Committee Report (page 121); Accounting policies (page 190); and Note 6.1 of the Consolidated Financial Statements (pages 212–214)* Goodwill of £2,245m is recognised in the Group's consolidated balance sheet at 30 September 2023 (FY22: £2,391m). We continue to include the recoverability of goodwill as a Key Audit Matter due to: • the estimation involved in determining the future performance of the Cash Generating Units (CGUs); • the magnitude of the goodwill; and • the audit effort and executive involvement.	**Valuation model** Management performed its annual impairment assessment as at 30 June 2023. We obtained the impairment assessment and tested the methodology applied in the value in use calculations for each of the CGUs as compared to the requirements of IAS 36, Impairment of Assets, including the appropriateness of the forecast periods, which were consistent with management's strategic planning horizon, and the mathematical accuracy of management's model. We considered whether any significant changes occurred between Management's assessment date and the year end that would impact the impairment test conclusion. We did this by reviewing the ongoing performance of the business and reviewing the inputs to the discount rate in light of the current macro-economic environment. **Key assumptions in the valuation** We evaluated the key underlying assumptions used in the valuations including revenue growth rates, margin and the discount rates applied. • We assessed the appropriateness of the key assumptions used in the FY24 forecasts including new customer acquisition, upsell/add-ons and level of churn by assessing these against the results achieved in FY23 and the prior track record of growth. • For forecasts for FY24-FY26, we considered the latest market trends, through reviewing market data such as central bank macroeconomic projections, to evaluate whether there is evidence that the forecast growth rates assumed for this period should be lower than the FY23 current growth rate. • We tested the reasonableness of long-term growth rates applied after the forecast period by comparing the rates used by management to published OECD rates. • We tested the discount rates, with the involvement of our internal valuation specialists, by reference to comparable market data and the specific risk profile relevant to each respective CGU, compared to the rates used by management. • We assessed the appropriateness of management's forecasts with respect to inclusion of the impact of climate change. • We performed downside sensitivity analysis on key assumptions in the models, including combinations thereof, to understand the parameters that, should they arise, cause an impairment of goodwill. **Disclosures** We considered the appropriateness of the related disclosures provided in note 1 (accounting estimates and judgments) and note 6.1 (goodwill) in the consolidated financial statements. We considered whether any reasonably possible change disclosures were required based upon the headroom within the sensitivity analysis. This included the removal of the sensitivity disclosure for Iberia, compared to prior year.	We concluded that no impairment of goodwill or other intangible assets is required in the current year. We have concluded that the methodology applied is reasonable, the forecast period is appropriate, and the impairment models are mathematically accurate. Key inputs such as underlying assumptions, forecast growth rates, margin and discount rates have been determined using a reasonable basis.

Our application of materiality

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

Materiality

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

We determined materiality for the Group to be £16.0 million (2022: £13.2 million), which is 5% (2022: 5%) of Adjusted Profit before tax*. We believe that Profit before tax adjusted for non-recurring items provides us with the most relevant performance measure to the stakeholders of the entity. Non-recurring items are set out in note 3.6 of the Group's financial statements and are summarised in the graphic below. Adjustments for non-recurring items in 2023 include property restructuring costs £32m, employee related costs £9m with a reversal of restructuring costs (£3m). In 2022 non-recurring items included a gain on disposal of subsidiaries (£53m) and the reversal of restructuring costs (£20m).

We determined materiality for the Parent Company to be £40.2 million (2022: £40.3 million), which is 1% (2022: 1%) of equity. We believe that equity is an appropriate basis to determine materiality given the nature of the Parent Company as the holding company of the Group. Any balances in the Parent Company financial statements that were relevant to our audit of the consolidated Group were audited using an allocation of Group performance materiality.

Starting basis

- Total profit before tax of £282m

Adjustments

- Adjustments for non-recurring items
- Property restructuring costs – £32m
- Employee-related costs – £9m
- Reversal of restructuring costs – (£3m)

Materiality

- Totals £320m
- Materiality of £16m (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.

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2022: 75%) of our planning materiality, namely £12.0m (2022: £9.9m). We have set performance materiality at this percentage due to our assessment of the control environment and lower likelihood of misstatements.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £2.4m to £8.6m (2022: £1.0m to £8.0m).

Reporting threshold

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

We agreed with the Audit and Risk Committee that we would report to them all uncorrected audit differences in excess of £0.8m (2022: £0.7m), 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- 170, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- 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

Corporate Governance Statement

We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group and company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on pages 164-165;
- Directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on pages 82-83;
- Director's statement on whether it has a reasonable expectation that the group will be able to continue in operation and meets its liabilities set out on pages 164-165;
- Directors' statement on fair, balanced and understandable set out on page 170;

- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 74-81;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 68-81; and
- The section describing the work of the audit committee set out on pages 118-128.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on pages 169-170, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are those 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 Sage Group plc is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the company secretary. We corroborated our enquiries through our review of board minutes and papers provided to the Audit and Risk Committee and attendance at all meetings of the Audit and Risk Committee, as well as consideration of the results of our audit procedures across the Group to either corroborate or provide contrary evidence which was then followed up.
- 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 material fraud or error.

- Based on this understanding, we designed our audit procedures to identify non-compliance with such 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.

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

Other matters we are required to address

- Following the recommendation from the audit committee, we were appointed by the company on 3 March 2015 to audit the financial statements for the year ending 30 September 2015 and subsequent financial periods.

  The period of total uninterrupted engagement including previous renewals and reappointments is 9 years, covering the years ending 30 September 2015 to 30 September 2023.

- The audit opinion is consistent with the additional report to the Audit and Risk Committee.

Use of our report

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

Ernst + Young LLP

Kathryn Barrow (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
21 November 2023

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 been presented on the web site.
2) Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Consolidated income statement
For the year ended 30 September 2023

	Note	**Underlying 2023 £m**	**Adjustments (note 3.6) 2023 £m**	**Statutory 2023 £m**	Underlying as reported* 2022 £m	Adjustments (note 3.6) 2022 £m	Statutory 2022 £m
Revenue	2.1, 3.1	**2,184**	**–**	**2,184**	1,949	(2)	1,947
Cost of sales		**(156)**	**–**	**(156)**	(138)	–	(138)
Gross profit		**2,028**	**–**	**2,028**	1,811	(2)	1,809
Selling and administrative expenses		**(1,572)**	**(141)**	**(1,713)**	(1,434)	(8)	(1,442)
Operating profit	2.2, 3.2, 3.3, 3.6	**456**	**(141)**	**315**	377	(10)	367
Finance income	3.5	**12**	**–**	**12**	1	–	1
Finance costs	3.5	**(44)**	**(1)**	**(45)**	(32)	1	(31)
Profit before income tax		**424**	**(142)**	**282**	346	(9)	337
Income tax expense	4	**(95)**	**24**	**(71)**	(83)	6	(77)
Profit for the year		**329**	**(118)**	**211**	263	(3)	260
Profit attributable to:							
Owners of the parent		**329**	**(118)**	**211**	263	(3)	260

Earnings per share attributable to the owners of the parent (pence)

	Note	**Underlying 2023**	**Adjustments 2023**	**Statutory 2023**	Underlying as reported* 2022	Adjustments 2022	Statutory 2022
Basic	5	**32.25p**		**20.75p**	25.74p		25.47p
Diluted	5	**31.75p**		**20.43p**	25.44p		25.17p

All operations in the year relate to continuing operations.

Note:

* Underlying as reported is at 2022 reported exchange rates.

Consolidated statement of comprehensive income
For the year ended 30 September 2023

	Note	2023 £m	2022 £m
Profit for the year		**211**	260
Items of other comprehensive income that will not be reclassified to profit or loss:			
Fair value gain on reassessment of equity investment	8	**–**	30
Actuarial gain on post-employment benefit obligations	11, 15.4	**–**	3
		–	33
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations and net investment hedges	15.3	**(82)**	177
Cash flow hedges	15.3	**4**	–
Exchange differences recycled through income statement on sale of foreign operations	15.3, 16.2	**–**	(13)
		(78)	164
Other comprehensive (expense)/income for the year, net of tax		**(78)**	197
Total comprehensive income for the year		**133**	457
Total comprehensive income for the year attributable to:			
Owners of the parent		**133**	457

Consolidated balance sheet

As at 30 September 2023

	Note	2023 £m	2022 Restated* £m
Non-current assets			
Goodwill	6.1	**2,245**	2,391
Other intangible assets	6.2	**274**	320
Property, plant and equipment	7	**104**	152
Equity investments	8	**4**	4
Trade and other receivables	9.1	**138**	128
Deferred income tax assets	12	**56**	19
Derivative financial instruments	14.5	**1**	–
		2,822	3,014
Current assets			
Trade and other receivables	9.1	**376**	355
Current income tax asset		**42**	39
Cash and cash equivalents (excluding bank overdrafts)	13.3	**696**	489
		1,114	883
Total assets		**3,936**	3,897
Current liabilities			
Trade and other payables	9.2	**(378)**	(368)
Current income tax liabilities		**(25)**	(13)
Borrowings	13.4	**(14)**	(178)
Provisions	10	**(23)**	(33)
Deferred income	9.3	**(745)**	(734)
		(1,185)	(1,326)
Non-current liabilities			
Borrowings	13.4	**(1,243)**	(1,044)
Post-employment benefits	11	**(19)**	(19)
Deferred income tax liabilities	12	**(18)**	(17)
Provisions	10	**(24)**	(20)
Trade and other payables	9.2	**(13)**	(6)
Deferred income	9.3	**(7)**	(8)
Derivative financial instruments	14.5	**(20)**	(60)
		(1,344)	(1,174)
Total liabilities		**(2,529)**	(2,500)
Net assets		**1,407**	1,397
Equity attributable to owners of the parent			
Ordinary shares	15.1	**12**	12
Share premium		**548**	548
Other reserves	15.3	**189**	267
Retained earnings	15.4	**658**	570
Total equity		**1,407**	1,397

Notes:

* Restated for finalisation of the fair value of assets acquired and liabilities assumed in the acquisition of Lockstep (see notes 1 and 16).

The consolidated financial statements on pages 182 to 260 were approved by the Board of Directors on 21 November 2023 and are signed on their behalf by:

Jonathan Howell
Chief Financial Officer

Consolidated statement of changes in equity
For the year ended 30 September 2023

	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 2022		**12**	**548**	**267**	**570**	**1,397**
Profit for the year		**–**	**–**	**–**	**211**	**211**
Other comprehensive (expense)/income:						
Exchange differences on translating foreign operations and net investment hedges	15.3	**–**	**–**	**(82)**	**–**	**(82)**
Cash flow hedges	14.5, 15.3	**–**	**–**	**4**	**–**	**4**
Total comprehensive (expense)/income for the year ended 30 September 2023		**–**	**–**	**(78)**	**211**	**133**
Transactions with owners:						
Employee share option scheme—value of employee services including deferred tax	15.4	**–**	**–**	**–**	**57**	**57**
Proceeds from issuance of treasury shares	15.4	**–**	**–**	**–**	**11**	**11**
Purchase of shares by Employee Benefit Trust	15.4	**–**	**–**	**–**	**(1)**	**(1)**
Dividends paid to owners of the parent	15.4, 15.5	**–**	**–**	**–**	**(190)**	**(190)**
Total transactions with owners for the year ended 30 September 2023		**–**	**–**	**–**	**(123)**	**(123)**
At 30 September 2023		**12**	**548**	**189**	**658**	**1,407**

Consolidated statement of changes in equity
For the year ended 30 September 2022

		Attributable to owners of the parent				
	Note	Ordinary shares £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
At 1 October 2021		12	548	103	448	1,111
Profit for the year		–	–	–	260	260
Other comprehensive income/(expense):						
Exchange differences on translating foreign operations and net investment hedges	15.3	–	–	177	–	177
Exchange differences recycled through income statement on sale of foreign operations	15.3	–	–	(13)	–	(13)
Fair value gain on reassessment of equity investment	8	–	–	–	30	30
Actuarial gain on post-employment benefit obligations	15.4	–	–	–	3	3
Total comprehensive income for the year ended 30 September 2022		–	–	164	293	457
Transactions with owners:						
Employee share option scheme—value of employee services including deferred tax	15.4	–	–	–	37	37
Proceeds from issuance of treasury shares	15.4	–	–	–	7	7
Purchase of shares by Employee Benefit Trust	15.4	–	–	–	(32)	(32)
Dividends paid to owners of the parent	15.4, 15.5	–	–	–	(183)	(183)
Total transactions with owners for the year ended 30 September 2022		–	–	–	(171)	(171)
At 30 September 2022		12	548	267	570	1,397

Consolidated statement of cash flows

For the year ended 30 September 2023

	Note	2023 £m	2022 £m
Cash flows from operating activities			
Cash generated from continuing operations	13.1	**505**	368
Interest paid		**(33)**	(21)
Income tax paid		**(85)**	(62)
Net cash generated from operating activities		**387**	285
Cash flows from investing activities			
Disposal of subsidiaries, net of cash disposed		**–**	42
Acquisition of subsidiaries, net of cash acquired	16.1	**(26)**	(285)
Purchases of intangible assets	6.2	**(17)**	(40)
Purchases of property, plant and equipment	7	**(5)**	(12)
Proceeds from disposals of property, plant and equipment	16.2	**–**	10
Interest received	3.5	**12**	1
Net cash used in investing activities		**(36)**	(284)
Cash flows from financing activities			
Proceeds from borrowings	13.2	**440**	516
Repayments of borrowings	13.2	**(353)**	(166)
Capital element of lease payments	13.2	**(18)**	(19)
Borrowing costs		**(3)**	(1)
Proceeds from issuance of treasury shares		**11**	7
Share buyback programmes	15.4	**–**	(249)
Purchase of shares by Employee Benefit Trust	15.4	**(1)**	(32)
Dividends paid to owners of the parent	15.5	**(190)**	(183)
Net cash used in financing activities		**(114)**	(127)
Net increase/(decrease) in cash and cash equivalents (before exchange rate movement)		**237**	(126)
Effects of exchange rate movement	13.2	**(30)**	48
Net increase/(decrease) in cash and cash equivalents		**207**	(78)
Cash, cash equivalents and bank overdrafts at 1 October	13.2	**489**	567
Cash, cash equivalents and bank overdrafts at 30 September	13.2	**696**	489

Notes to the consolidated financial statements

1 Basis of preparation and 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 UK-IFRS in conformity with the requirements of the Companies Act 2006 and also prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

UK-IFRS can 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 and equity investments which are measured at fair value. 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 accounting standards, amendments, or interpretations effective for the first time this financial year that have had a material impact on the Group. No standards have been early adopted during the year.

In July 2023, the UK Endorsement Board adopted 'International Tax Reform—Pillar Two Model Rules (Amendments to IAS 12) as issued by the IASB. The Amendments introduce a temporary mandatory exception from accounting for deferred taxes arising from the Pillar Two model rules, effective immediately and retrospectively, and the Group has applied this exception.

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 2023.

None are expected to have a material impact on the consolidated financial statements when first applied.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance, and position, are set out in the Strategic Report on pages 1 to 83.

In preparing these financial statements, the Directors have reviewed and approved a going concern assessment which considers the liquidity forecast of the Group for the period through to 31 March 2025 (the going concern assessment period). The liquidity forecast reflects the expected impact of the economic environment, including the current inflationary environment. More specifically, full consideration has been given to the potential risks and uncertainties linked to the changing macro-economic environment, and the possible impact on the Group's customer base.

In light of this, we note that the Group's operational and financially robust position is supported by:

- High-quality recurring and subscription-based revenue;
- Resilient cash generation and robust liquidity, supported by strong underlying cash conversion of 116%, reflecting the strength of the subscription business model; and
- A well-diversified small and medium-sized customer base which is geographically diverse.

In preparing the going concern assessment scenario-specific stress testing has been performed, with the level of churn assumptions increasing by 75%, and a significant reduction in the level of new customer acquisition and sales to existing customers. Under these scenarios, the Group continues to have sufficient resources to continue in operational existence without the need to drawdown on its revolving credit facility or seek additional financing. If more severe impacts occur there are further controllable mitigating actions which can be taken to protect liquidity, including the reduction of discretionary spend. Stress testing has also been performed as part of the severe but plausible scenarios (as described within the Viability Statement on pages 82 and 83).

The Directors have also reviewed the results of reverse stress testing performed to provide an illustration of the level of churn and deterioration in new customer acquisition which would be required to exhaust cash down to minimum working capital requirements. The result of the reverse stress testing has highlighted that such a scenario would only arise following a highly significant deterioration in performance, well in excess of the assumptions considered in the stress testing scenarios above. The probability of these factors occurring is deemed to be remote given the resilient nature of the subscription business model, robust balance sheet, and continued strong cash conversion.

After making enquiries, the Directors have a reasonable expectation that Sage has adequate resources to continue in operational existence throughout the going concern assessment period. Accordingly, the consolidated and parent Company financial information has been prepared on a going concern basis.

Further details for adopting the going concern basis are set out in the Directors' Report on pages 164 to 165.

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 settlement 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 and derivative financial instruments 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. Foreign exchange movements on derivative financial instruments which are designated in cash flow hedge relationships are included in the profit or loss for the period, to offset foreign currency movements in the hedged item.

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".

Climate change

In preparing the consolidated financial statements, management has considered the impact of climate change, specifically with reference to the disclosures provided in the Strategic Report (see pages 30 to 45).

As a business, we are committed to reducing our carbon emissions and target achieving net zero by 2040. We support our customers, small and mid-sized businesses, in achieving net zero by sharing the knowledge, technology and skills to be a driving force for change. We also support more broadly by advocating for enabling policies and standards that support a transition to a low-carbon economy.

We recognise the importance of identifying and effectively managing the physical and transitional risks that climate change poses to our operations and consider the impact of climate-related matters, including legislation, on our business. The climate change scenario analyses undertaken in line with Task Force on Climate-related Financial Disclosures (TCFD) recommendations did not identify any material impact on the Group's financial results, going concern or viability. More specifically:

- In preparing the viability assessment, consideration has been given to the potential impact of climate change over the next three years, as set out in the Strategic Report.
- Climate change related factors on matters including residual values, useful lives and depreciation and amortisation periods which relate to non-current assets have also been considered, with no impact identified at this stage.
- In our future forecasts used for goodwill impairment and the going concern assessment, we have considered the extent to which costs associated with our climate related commitments have been considered, as well as broader societal commitments. These commitments do not have a material impact.

Notes to the consolidated financial statements continued

1 Basis of preparation and accounting estimates and judgements continued

Climate change continued

- We have also considered the extent to which climate change could impact longer-term economic growth, which may impact long-term growth rates used in the goodwill impairment test. Sensitivity testing demonstrates that all cash-generating units (CGUs) retain sufficient headroom.

Accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates and judgements by management. It also requires management to exercise its judgement in the process of applying the accounting policies. We continually evaluate our estimates and judgements based on available information.

Management has determined that there are no areas of estimation uncertainty that could be significant under IAS 1, 'Presentation of Financial Statements', being areas of estimation uncertainty with a significant risk of a material change to the carrying value of assets and liabilities within the next financial year.

Other key estimates are made when preparing the financial statements, which, while not meeting the definition of a significant estimate under IAS 1, involve the measurement of certain material assets or a higher degree of complexity.

Significant judgements are those made by management in applying our accounting policies that have a material impact on the amounts presented in the financial statements.

Management's rationale in relation to these key accounting estimates and significant judgements are regularly assessed and, where material in value or in risk, are discussed with the Audit and Risk Committee. These areas are discussed in further detail below:

Revenue recognition (judgement)

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

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

Where the business partner is not a customer of Sage and their part in the sale has simply been in the form of a referral, they are remunerated in the form of a commission payment. These payments are treated as contract acquisition costs (see note 9.1).

Goodwill impairment (estimate)

The estimates applied in calculating the value in use of the CGUs being tested for impairment are a source of estimation uncertainty. The key estimates considered in the calculation relate to the future performance expectations of the business and include the average medium-term revenue growth rate, the long-term growth rate of net operating cash flows and the discount rate.

Further information on these key estimates, as well as the level at which goodwill is monitored and the results of sensitivity analysis are disclosed in note 6.1.

Business combinations (judgement and estimate)

During the year, the Group finalised the purchase price accounting for Lockstep Network Holdings Inc ("Lockstep"), for which the Group acquired 100% of the equity capital and voting rights in August 2022. At the end of the prior year, the amounts recognised relating to the acquisition were provisional. During the current year, the purchase price accounting has been finalised, therefore certain adjustments have been recognised in the year. These adjustments include the recognition of intangible assets and deferred tax liabilities, offset by a reduction in the amount of goodwill provisionally recognised in the prior year. Further explanation of the changes are set out in note 16.

Key areas of judgement and estimation include the identification and subsequent measurement of acquired intangible assets, for which an external expert was engaged to support the exercise. The recognised intangible assets included technology and customer relationships. The fair value of the acquired technology was determined using the relief from royalty method and the customer relationship was determined using a discounted cashflow approach. These valuation techniques incorporate several key estimates including revenue forecasts and the application of an appropriate discount rate to state future cash flows at their present value. In addition, the relief from royalty method requires the use of an appropriate royalty rate, which was corroborated against the Group's own royalty rates used for internal transfer pricing purposes as well as external benchmark data.

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 UK & Ireland, North America and Europe. The Group's operations in Africa and the Middle East, and Asia (including Australia) 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 Africa & APAC. 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, underlying, and organic operating profit.

- Statutory results reflect the Group's results prepared in accordance with the requirements of IFRS.
- "Underlying" and "underlying as reported" are non-GAAP measures. Underlying measures are adjusted to exclude items which in management's judgement need to be disclosed separately by virtue of their size, nature or frequency. These measures are considered key measures within the business which aid understanding of the performance for the year and comparability between periods. The items excluded include both: a) Recurring items which include purchase price adjustments including amortisation of acquired intangible assets and adjustments made to reduce deferred income arising on acquisitions, acquisition-related items and unhedged FX on intercompany balances; and b) Non-recurring items that management judges to be one-off or non-operational such as gains and losses on the disposal of assets, impairment charges and reversals, and restructuring related costs. Management applies judgement in determining which items should be excluded from underlying performance. See note 3.6 for details of these adjustments.

  In addition, underlying measures are presented on a constant currency basis with prior year amounts translated at current year exchange rates. Prior year underlying amounts at prior year exchange rates are "underlying as reported"; prior year and current year amounts at current year exchange rates are "underlying".
- Organic is a non-GAAP measure. In addition to the adjustments made to the underlying measures, the contributions from discontinued operations, disposals, and assets held for sale of standalone businesses in the current and prior period are removed so that results can be compared to the prior year on a like-for-like basis. Results from acquired businesses are excluded in the year of acquisition. Adjustments are made to the comparative period to present prior period acquired businesses as if these had been part of the Group throughout the prior period. Acquisitions and disposals which occurred close to the start of the opening comparative period where the contribution impact would be immaterial are not adjusted.

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

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

Non-GAAP measures should not be viewed in isolation, nor are considered as a substitute for measures reported in accordance with IFRS.

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 Leadership Team (ELT) 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 Management Performance Reviews. The ELT 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 seven key operating segments: North America, UK & Ireland, Central Europe (Germany and Austria), France, Iberia (Spain and Portugal), Africa and the Middle East, and Asia (including Australia). For reporting under IFRS 8, the Group is divided into three reportable segments. These segments are as follows:

- North America
- UK & Ireland
- Europe (Central Europe, France, and Iberia)

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

In previous years, the UK & Ireland reportable segment was presented as Northern Europe, the Europe reportable segment was presented as International—Central and Southern Europe, and the Africa & APAC segment was presented as International—Africa & APAC.

The reportable segment Europe reflects the aggregation of the operating segments for Central Europe, France and Iberia. 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 customers are in countries within the EU.

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 2023					Change		
	Statutory £m	Underlying adjustments £m	Underlying £m	Organic adjustments* £m	Organic £m	Statutory	Underlying	Organic
Recurring revenue by segment								
North America	**944**	**–**	**944**	**(1)**	**943**	20%	16%	15%
UK & Ireland	**466**	**–**	**466**	**–**	**466**	9%	9%	8%
Europe	**541**	**–**	**541**	**–**	**541**	10%	7%	8%
Africa & APAC	**145**	**–**	**145**	**–**	**145**	4%	13%	13%
Recurring revenue	**2,096**	**–**	**2,096**	**(1)**	**2,095**	14%	12%	11%
Other revenue by segment								
North America	**29**	**–**	**29**	**–**	**29**	(11%)	(14%)	(15%)
UK & Ireland	**5**	**–**	**5**	**(1)**	**4**	(20%)	(20%)	(39%)
Europe	**43**	**–**	**43**	**–**	**43**	(19%)	(21%)	(21%)
Africa & APAC	**11**	**–**	**11**	**–**	**11**	(17%)	(12%)	2%
Other revenue	**88**	**–**	**88**	**(1)**	**87**	(16%)	(18%)	(18%)
Total revenue by segment								
North America	**973**	**–**	**973**	**(1)**	**972**	19%	15%	14%
UK & Ireland	**471**	**–**	**471**	**(1)**	**470**	9%	8%	7%
Europe	**584**	**–**	**584**	**–**	**584**	7%	5%	5%
Africa & APAC	**156**	**–**	**156**	**–**	**156**	2%	11%	12%
Total revenue	**2,184**	**–**	**2,184**	**(2)**	**2,182**	12%	10%	10%

	Year ended 30 September 2023					Change		
	Statutory £m	Underlying adjustments £m	Underlying £m	Organic adjustments* £m	Organic £m	Statutory	Underlying	Organic
Total recurring revenue by type								
Software Subscription Revenue	**1,732**	**–**	**1,732**	**(1)**	**1,731**	19%	17%	16%
Other Recurring Revenue	**364**	**–**	**364**	**–**	**364**	(4%)	(7%)	(7%)
Recurring revenue	**2,096**	**–**	**2,096**	**(1)**	**2,095**	14%	12%	11%
Other revenue	**88**	**–**	**88**	**(1)**	**87**	(16%)	(18%)	(18%)
Total revenue	**2,184**	**–**	**2,184**	**(2)**	**2,182**	12%	10%	10%

Notes:

* Adjustments relate to the acquisitions of Spherics and Corecon (see note 16).

2 Segment information continued

2.1 Revenue by segment continued

	Year ended 30 September 2022						
	Statutory £m	Underlying adjustments* £m	Underlying as reported £m	Impact of foreign exchange £m	Underlying £m	Organic Adjustments** £m	Organic £m
Recurring revenue by segment							
North America	786	1	787	28	815	6	821
UK & Ireland	427	1	428	1	429	5	434
Europe	490	–	490	13	503	(4)	499
Africa & APAC	140	–	140	(12)	128	–	128
Recurring revenue	1,843	2	1,845	30	1,875	7	1,882
Other revenue by segment							
North America	32	–	32	2	34	–	34
UK & Ireland	6	–	6	–	6	–	6
Europe	53	–	53	2	55	(1)	54
Africa & APAC	13	–	13	(1)	12	(2)	10
Other revenue	104	–	104	3	107	(3)	104
Total revenue by segment							
North America	818	1	819	30	849	6	855
UK & Ireland	433	1	434	1	435	5	440
Europe	543	–	543	15	558	(5)	553
Africa & APAC	153	–	153	(13)	140	(2)	138
Total revenue	1,947	2	1,949	33	1,982	4	1,986

	Year ended 30 September 2022						
	Statutory £m	Underlying adjustments* £m	Underlying as reported £m	Impact of foreign exchange £m	Underlying £m	Organic Adjustments** £m	Organic £m
Total recurring revenue by type							
Software Subscription Revenue	1,462	2	1,464	20	1,484	8	1,492
Other Recurring Revenue	381	–	381	10	391	(1)	390
Recurring revenue	1,843	2	1,845	30	1,875	7	1,882
Other revenue	104	–	104	3	107	(3)	104
Total revenue	1,947	2	1,949	33	1,982	4	1,986

Notes:

* Adjustments between statutory and underlying numbers are detailed in note 3.6.

** Adjustments relate to the acquisition of Brightpearl, Lockstep and Futrli, and disposal of the Group's Swiss business and its payroll outsourcing business in South Africa in the prior year.

2.2 Operating profit by segment

	Year ended 30 September 2023					Change		
	Statutory £m	Underlying adjustments £m	Underlying £m	Organic adjustments £m	Organic £m	Statutory	Underlying	Organic
Operating profit by segment								
North America	**127**	**71**	**198**	**–**	**198**	9%	30%	36%
UK & Ireland	**59**	**55**	**114**	**1**	**115**	2%	6%	14%
Europe	**108**	**10**	**118**	**–**	**118**	(29%)	25%	26%
Africa & APAC	**21**	**5**	**26**	**–**	**26**	(49%)	(21%)	(21%)
Total operating profit	**315**	**141**	**456**	**1**	**457**	(14%)	18%	22%

	Year ended 30 September 2022						
	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	116	30	146	6	152	(6)	146
UK & Ireland	58	47	105	1	106	(5)	101
Europe	152	(61)	91	4	95	–	95
Africa & APAC	41	(6)	35	(2)	33	(1)	32
Total operating profit	367	10	377	9	386	(12)	374

The results by segment from continuing operations were as follows:

Year ended 30 September 2023	Note	**North America £m**	**UK & Ireland £m**	**Europe £m**	**Total reportable segments £m**	**Africa & APAC £m**	**Group £m**
Revenue		**973**	**471**	**584**	**2,028**	**156**	**2,184**
Segment statutory operating profit		**127**	**59**	**108**	**294**	**21**	**315**
Finance income	3.5						**12**
Finance costs	3.5						**(45)**
Profit before income tax							**282**
Income tax expense	4						**(71)**
Profit for the year							**211**

2 Segment information continued

2.2 Operating profit by segment continued

Reconciliation of underlying operating profit to statutory operating profit:

Year ended 30 September 2023	North America £m	UK & Ireland £m	Europe £m	Total reportable segments £m	Africa & APAC £m	Group £m
Underlying operating profit	**198**	**114**	**118**	**430**	**26**	**456**
Amortisation of acquired intangible assets (note 3.6)	**(26)**	**(23)**	**(3)**	**(52)**	**(2)**	**(54)**
Other acquisition-related items (note 3.6)	**(19)**	**(26)**	**(1)**	**(46)**	**(3)**	**(49)**
Non-recurring items (note 3.6)	**(26)**	**(6)**	**(6)**	**(38)**	**–**	**(38)**
Statutory operating profit	**127**	**59**	**108**	**294**	**21**	**315**

The results by segment from continuing operations were as follows:

Year ended 30 September 2022	Note	North America £m	UK & Ireland £m	Europe £m	Total reportable segments £m	Africa & APAC £m	Group £m
Revenue		818	433	543	1,794	153	1,947
Segment statutory operating profit		116	58	152	326	41	367
Finance income	3.5						1
Finance costs	3.5						(31)
Profit before income tax							337
Income tax expense	4						(77)
Profit for the year							260

Reconciliation of underlying operating profit to statutory operating profit:

Year ended 30 September 2022	North America £m	UK & Ireland £m	Europe £m	Total reportable segments £m	Africa & APAC £m	Group £m
Underlying operating profit	146	105	91	342	35	377
Amortisation of acquired intangible assets (note 3.6)	(21)	(18)	(3)	(42)	–	(42)
Adjustment to acquired deferred income (note 3.6)	(1)	(1)	–	(2)	–	(2)
Other acquisition-related items (note 3.6)	(9)	(29)	(1)	(39)	–	(39)
Non-recurring items (note 3.6)	1	1	65	67	6	73
Statutory operating profit	116	58	152	326	41	367

Impairment losses of £22m (2022: £nil) reported by the Group, and included as a non-recurring item, relate to the impairment of assets arising from the property restructuring programme. See note 3.6.

2.3 Analysis by geographic location

Management considers countries which generate 10% or more 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	2023 £m	2022 £m
USA	**846**	702
UK	**443**	409
France	**295**	273
Other individually immaterial countries	**600**	563
	2,184	1,947

Management considers countries which contribute 10% or more 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 exclude deferred tax assets and financial instruments.

Non-current assets by geographical location	2023 £m	2022 Restated* £m
USA	**1,657**	1,848
UK	**566**	588
France	**264**	265
Other individually immaterial countries	**270**	286
	2,757	2,987

Notes:

* Restated for finalisation of the fair value assets acquired and liabilities assumed in the acquisition of Lockstep (see notes 1 and 16.1).

3 Profit before income tax

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

In addition, this note explains the accounting applied to leases entered into by the Group as a lessee and analyses the amounts recognised for leases on the balance sheet and in the income statement.

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 Profit before income tax continued

3.1 Revenue

Accounting policy

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

Category and examples	Accounting treatment
Recurring revenue Subscription revenue Other recurring revenue	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. Included within subscription revenue are transaction and agent fees for transactions that customers of our software execute through our digital network, some of which is billed on a consumption basis. Other recurring revenue primarily comprises maintenance and support revenue provided over a contractual term. In the event that the customer stops paying, they lose access to technical product support as well as any non-specified updates, upgrades and enhancements. Subscription revenue and other recurring 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. Digital network transaction and agent fees, to the extent billed on a consumption basis, are recognised as the services are utilised.
Other revenue *Software and software-related services* • Perpetual software licences • Upgrades to perpetual licences • Professional services • Training	Revenue relating to perpetual software licences with significant standalone functionality and upgrades to such licenses is recognised when the control relating to the licence has been transferred, which is typically when electronic delivery has taken place. Professional services and training revenue is usually 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.

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 (or allocated based on the standalone selling prices) to them is recognised separately. However, certain on-premise subscription contracts, which combine the delivery of on-premise software and maintenance and support services, require unbundling. Sage cloud native services do not require unbundling as the terms do not provide the customer with a right to terminate the hosting contract and take possession of the software.

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

The transaction price is allocated between the identified obligations according to the relative standalone selling prices (SSPs) of the obligations. The SSP of each obligation deliverable in the contract is determined according to the prices that the Group would obtain by selling the same goods and/or services included in the obligation to a similar customer on a standalone basis. The Group has established a hierarchy to identify the SSPs that are used to allocate the transaction price of a customer contract to the performance obligations in the contract. Where SSPs for on-premise offerings are observable and consistent across the customer base, SSP estimates are derived from pricing history. Where there are no directly observable estimates available, comparable products are utilised as a basis of assessment or the residual approach is used. Under the residual approach, the SSP for the offering is estimated to be the total transaction price less the sum of the observable SSPs of other goods or services in the contract.

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

- Licences for standard on-premise software products are typically delivered by providing the customer with access to download the software. The licence period starts when such access is granted. Licence revenue is recognised at a point in time or over time depending on whether the Group delivers software with significant standalone functionality or software which is dependent on updates for ongoing functionality. The Group recognises revenue for these licences which have significant standalone functionality at the point in time when the customer has access to and control over the software. For licences which are dependent on updates for ongoing functionality, the Group recognises revenue based on time elapsed and thus rateably over the term of the contract. Typically, this includes our payroll and tax compliance software.
- Where the Group's performance obligation is the grant of a right to continuously access a cloud offering for a certain term, revenue is recognised based on time elapsed and thus rateably over the term.
- Maintenance and support revenue is typically recognised based on time elapsed and thus rateably over the term of the support arrangement. Under the standardised maintenance and support services, the Group's performance obligation is to stand ready to provide technical product support and unspecified updates, upgrades, and enhancements on a when-and-if-available basis. The customers simultaneously receive and consume the benefits of these services.
- Professional services and classroom training revenue are typically recognised as they are delivered. 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 (including digital network transaction and agent fees) are recognised as the services are provided.

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 criterion in this determination is whether the business partner has taken control of the product. Considering the nature of Sage's subscription products and support services, this is usually assessed based on whether the business partner has responsibility for payment, has discretion to set prices, and takes on the risks and rewards of the product from Sage. See "Critical accounting estimates and judgements" in note 1 for details.

3 Profit before income tax continued

3.1 Revenue continued

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, hosting costs, 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	2023 £m	2022 £m
Staff costs		**1,048**	905
Depreciation of property, plant and equipment	7	**39**	41
Impairment of property, plant and equipment	3.6, 7	**22**	–
Amortisation of intangible assets	6.2	**69**	56
Customer acquisition amortisation expense	9.1	**147**	123
Gain on disposal of subsidiaries	3.6	**–**	(53)
Other M&A activity-related items	3.6	**49**	39

The Group incurred £342m (2022: £302m) of research and development expenditure in the year, of which £295m (2022: £257m) relates to total Group staff costs included above. See note 6.2 for the research and development accounting policy.

Services provided by the Group's auditor and network firms

During the year, the Group obtained the following services from the Group's auditor at costs as detailed below:

	2023 £m	2022 £m
Fees payable to the Group's auditor for the audit of the Company and the consolidated accounts	**3**	2
Fees payable to the Group's auditor for the audit of the Company's subsidiaries	**3**	3
Total fees	**6**	5

Fees payable to the Group's auditor for audit-related assurance services (including costs relating to the half year review) and other non-audit services were £nil (2022: £nil).

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 pages 126 and 127.

3.3 Employees and Directors

Average monthly number of people employed (including Directors)	2023 number	2022 number
By segment:		
North America	**2,823**	2,640
UK & Ireland	**3,998**	3,686
Europe	**3,490**	3,715
Africa & APAC	**1,254**	1,187
	11,565	11,228

Staff costs (including Directors on service contracts)	Note	2023 £m	2022 £m
Wages and salaries		**922**	802
Social security costs		**119**	102
Post-employment benefits	11	**30**	24
Share-based payments	15.2	**49**	36
		1,120	964

Staff costs include a total of £72m of capitalised commission costs which are amortised over the expected contract life including probable contract renewals (2022: £59m), see note 9.1.

Key management compensation	2023 £m	2022 £m
Salaries and short-term employee benefits	**10**	10
Share-based payments	**7**	5
	17	15

Key management personnel are deemed to be members of the Group's Executive Leadership Team and the Non-executive Directors as shown on pages 88 to 91.

3 Profit before income tax continued

3.4 Leases

Accounting policy

The Group as lessee

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

Lease payments are discounted using the incremental borrowing rate applicable to the lease at the lease commencement date, as the rate implicit in the lease cannot normally be readily determined. Lease assets are recognised at the amount of the lease liability, adjusted where applicable for any lease payments made or lease incentives received before commencement of the lease, direct costs incurred at the commencement of the lease and estimated restoration costs to be incurred at the end of the lease.

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

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

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

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

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

	Note	2023 £m	2022 £m
At 1 October		**95**	100
• Additions		**15**	6
• Disposals		**(1)**	–
• Interest charge in the year		**3**	3
• Payment of lease liabilities		**(21)**	(22)
• Exchange movement		**(5)**	8
At 30 September		**86**	95
Presented as			
Borrowings—current	13.4	**14**	17
Borrowings—non-current	13.4	**72**	78

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

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

	Note	2023 £m	2022 £m
Depreciation of right-of-use assets		**19**	19
Impairment of right-of-use assets		**19**	–
Interest expense charge on lease liabilities	3.5	**3**	3
Lease expense from short-term leases and leases of low-value assets (included in selling and administrative expenses)		**5**	4
		46	26

Total cash outflows for leases in the year, including interest payments and outflows related to short-term leases and leases of low-value assets, was £26m (2022: £26m). Cash flows in relation to short-term leases and leases of low values assets are reported as part of cash flows from operating activities.

Impairment of right-of-use assets of £19m (2022: £nil) relates to the property restructuring costs incurred in the year, with an additional £3m (2022: £nil) of impairment costs incurred for other related fixed assets (see note 3.6).

The Group is exposed to potential future increases in variable lease payments that are based on an index or rate, which are initially measured as at the commencement date, with any future changes in the index or rate excluded from the lease liability until they take effect. If adjustments to lease payments based on an index or rate take effect, the lease liability will be reassessed and adjusted against the right-of-use asset.

3 Profit before income tax continued

3.5 Finance income and costs

Accounting policy

Finance income and costs are recognised using the effective interest method. Finance costs are recognised in the income statement simultaneously with the recognition of an increase in a liability or the reduction in an asset. Derivative financial instruments are measured at fair value through profit or loss, within finance income and costs, unless they are designated as a hedging instrument.

Where derivative financial instruments have been designated as hedging instruments in a cash flow hedge, and the hedging relationship is effective, gains and losses on those instruments are accumulated in the cash flow hedge reserve. The amount accumulated in the hedging reserve is reclassified to finance income or costs in the same period or periods during which the expected future cash flows affect the profit or loss. Any ineffective portion of changes in the fair value of the derivative financial instrument is recognised immediately in finance income or costs.

Where derivative financial instruments have been designated as hedging instruments in a net investment hedge, gains or losses on those instruments are recognised in finance income and costs only to the extent the hedging relationship is ineffective. Where the hedging relationship is effective, gains or losses are accumulated in the foreign currency translation reserve.

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.

	2023 £m	2022 £m
Finance income:		
Interest income on short-term deposits	**12**	1
Finance income	**12**	1
Finance costs:		
Finance costs on bond notes	**(31)**	(13)
Finance costs on US senior loan notes	**(6)**	(13)
Finance costs on bank borrowings	**(4)**	(1)
Interest charge on lease liabilities	**(3)**	(3)
Amortisation of issue costs	**(1)**	(1)
Finance costs	**(45)**	(31)
Finance costs—net	**(33)**	(30)

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 (due to their size, nature, or frequency).

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

Recurring items

These are items which occur regularly, but the exclusion of which management considers necessary to aid understanding of the underlying results of the Group. These items mainly relate to merger and acquisition (M&A) related activity. By its nature, M&A activity is variable in its impact but is likely to include 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 (which are typically incurred over a period of one year or more). Unhedged 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 affect 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. Whilst these items are described as non-recurring, similar costs, for example in relation to different restructuring programmes or impairments of other assets, may arise in future periods. As these items are one-off or non-operational in nature, management considers that their exclusion aids understanding of the Group's underlying business performance.

	Recurring 2023 £m	**Non-recurring 2023 £m**	**Total 2023 £m**	Recurring 2022 £m	Non-recurring 2022 £m	Total 2022 £m
M&A activity-related items						
Amortisation of acquired intangibles	**54**	**–**	**54**	42	–	42
Gain on disposal of subsidiaries	**–**	**–**	**–**	–	(53)	(53)
Adjustment to acquired deferred income	**–**	**–**	**–**	2	–	2
Other M&A activity-related items	**49**	**–**	**49**	39	–	39
Other items						
Property restructuring costs	**–**	**32**	**32**	–	–	–
Employee-related costs	**–**	**9**	**9**	–	–	–
Reversal of restructuring costs	**–**	**(3)**	**(3)**	–	(20)	(20)
Total adjustments made to operating profit	**103**	**38**	**141**	83	(73)	10
Foreign currency movements on intercompany balances	**1**	**–**	**1**	(1)	–	(1)
Total adjustments made to profit before income tax	**104**	**38**	**142**	82	(73)	9

3 Profit before income tax continued

3.6 Adjustments between underlying and statutory results continued

Recurring items

Acquired intangibles are assets which have previously been recognised as part of business combinations or similar transactions. These assets are predominantly customer relationships and technology rights. Further details including specific accounting policies in relation to these assets can be found in note 6.2.

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

Other M&A activity-related items relate to advisory, legal, accounting, valuation, and other professional or consulting services which are related to M&A activity as well as acquisition-related remuneration and directly attributable integration costs. £18m (2022: £14m) of these costs have been paid in the year, while the remainder is expected to be paid in subsequent financial years.

Foreign currency movements on intercompany balances occur due to retranslation of unhedged intercompany balances other than those where settlement is not planned or likely in the foreseeable future and resulted in a loss of £1m (2022: gain £1m).

Non-recurring items

Net charges in respect of non-recurring items amounted to £38m (2022: net credit £73m).

Property restructuring costs relate to the reorganisation of a number of leased properties following a strategic review of the Group's property portfolio, as a result of which certain of the Group's properties were either exited or downsized as part of a consolidated plan. Costs of £32m consist of impairment of £22m of right-of-use assets and other related fixed assets that are no longer in use and therefore fully impaired, as well as a provision of £10m for directly attributable future running costs associated with the properties. The programme was fully completed in the current year, with no further costs expected to be incurred in the following year.

Employee-related costs of £9m (2022: £nil) relate to a charge for French payroll taxes relating to previous years.

The gain on disposal of subsidiaries in the prior year of £53m relates to the disposal of the Group's Swiss business (£49m) and the Group's payroll outsourcing business in South Africa (£4m).

Reversal of restructuring costs of £3m (2022: £20m) largely relates to unutilised provisions recognised in the year ended 30 September 2021 following the implementation of a business transformation plan. In the prior year, this largely resulted from fewer colleagues leaving the business as they were redeployed into other roles.

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

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

Analysis of expense in the year	Note	2023 £m	2022 £m
Current income tax			
Current tax on profit for the year		**106**	76
Adjustment in respect of prior years		**(5)**	(7)
Current income tax		**101**	69
Deferred tax			
Origination and reversal of temporary differences		**(33)**	3
Adjustment in respect of prior years		**3**	5
Deferred tax	12	**(30)**	8
The current year tax expense is split into the following:			
Underlying tax expense		**95**	83
Tax credit on adjustments between the underlying and statutory operating profit		**(24)**	(6)
Income tax expense reported in income statement		**71**	77

A deferred tax benefit of £6m relating to employee benefits has been recognised directly in other comprehensive income (2022: charge £2m). A current tax benefit of £6m relating to foreign currency derivatives and share options was recognised directly in other comprehensive income in 2022.

4 Income tax expense continued

The effective tax rate for the year is higher (2022: higher) than the rate of UK corporation tax applicable to the Group of 22% (2022: 19%). The differences are explained below:

	2023 £m	2022 £m
Profit before income tax	**282**	337
Statutory profit before income tax multiplied by the rate of UK corporation tax of 22% (2022: 19%)	**62**	64
Tax effects of:		
Adjustments in respect of prior years	**(2)**	(2)
Foreign tax rates in excess of UK rate of tax	**10**	19
US tax reform	**(5)**	1
Non-deductible expenses and permanent items	**12**	8
Other corporate taxes (withholding tax, business tax)	**6**	8
Tax incentive claims	**(16)**	(12)
Corporate restructuring	**4**	–
Non-taxable gain on disposal	**–**	(9)
At the effective income tax rate of 25% (2022: 23%)	**71**	77
Income tax expense reported in the income statement	**71**	77

The underlying effective tax rate for the year is higher (2022: higher) than the rate of UK corporation tax applicable to the Group of 22% (2022: 19%). The differences are explained below:

	2023 £m	2022 £m
Underlying profit before income tax	**424**	346
Underlying profit before income tax multiplied by the rate of UK corporation tax of 22% (2022: 19%)	**93**	66
Tax effects of:		
Adjustments in respect of prior years	**(3)**	(2)
Foreign tax rates in excess of UK rate of tax	**13**	19
US tax reform	**(5)**	1
Non-deductible expenses and permanent items	**7**	3
Other corporate taxes (withholding tax, business tax)	**6**	8
Tax incentive claims	**(16)**	(12)
At the effective income tax rate of 23% (2022: 24%)	**95**	83
Underlying tax expense	**95**	83

The effective tax rate on statutory profit before tax was 25% (2022: 23%), whilst the effective tax rate on underlying profit before tax on continuing operations was 23% (2022: 24%).

The underlying effective tax rate is higher than the UK corporation tax rate applicable to the Group, primarily due to the geographic profile of the Group and the inclusion of local business taxes in the corporate tax expense. This net increase to the rate is offset by innovation tax credits for registered patents and software, and research and development activities which attract government tax incentives in a number of operating territories. The underlying effective tax rate was reduced in the year, principally due to the benefit of increased tax incentive claims in the US, UK, and France, which were partly offset by the impact of an increase in the UK corporate tax rate.

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 a provision of £31m at 30 September 2023 (2022: £24m). The provision increased in the year principally due to developments in the Group’s tax audits.

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

Management has applied the principles set out in IFRIC 23 in determining the measurement of uncertain tax positions.
In making these estimates, management's judgement was based on various factors including:

- The status of recent and current tax audits and enquiries;
- The results of previous claims; and
- Any changes to the relevant tax environment.

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

Management continually assesses the impact of legislative developments in the jurisdictions in which we operate. As the main UK corporation tax rate will increase from 22% to 25% for the year ended 30 September 2024, the Group expects its effective tax rate to increase by 1% in the medium term, depending on our future geographic profit mix. The OECD's two pillar global tax reform will apply to the Group from the financial year ended 30 September 2025. An initial assessment of this legislation has been completed and it is not expected to materially impact the Group's effective tax rate in future periods.

EU State Aid

The Group continues to monitor developments following the EU Commission's decision published on 25 April 2019 that the UK's Controlled Foreign Company regime does not comply with EU State Aid rules in certain circumstances.

On 8 June 2022, the EU General Court dismissed the UK Government's appeal and ruled in favour of the EU. As a result of this decision, management assessed that it was more likely than not that the EU Commission's decision will be upheld. Therefore the £10m advance payment that the Group had made to HMRC in 2021 was treated in the FY22 Annual Report and Accounts as an advance payment in respect of the Group's likely tax liability.

The Group continues to consider its options in relation to this matter, including a position that management consider would eliminate the State Aid exposure whilst ensuring the Group's total exposure remains at £10m.

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 and held by the Employee Benefit Trust, which are treated as cancelled, until reissued.

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 which 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, where the vesting criteria are achieved at year-end.

Reconciliations of the earnings and weighted average number of shares	**Underlying 2023**	Underlying as reported* 2022	Underlying 2022	**Statutory 2023**	Statutory 2022
Earnings attributable to owners of the parent** (£m)					
Profit for the year	**329**	263	269	**211**	260
Number of shares (millions)					
Weighted average number of shares	**1,020**	1,020	1,020	**1,020**	1,020
Dilutive effects of shares	**16**	12	12	**16**	12
	1,036	1,032	1,032	**1,036**	1,032
Earnings per share attributable to owners of the parent** (pence)					
Basic earnings per share	**32.25**	25.74	26.39	**20.75**	25.47
Diluted earnings per share	**31.75**	25.44	26.08	**20.43**	25.17

Note:

* Underlying as reported is at 2022 reported exchange rates.

** All operations in the years relate to continuing operations.

Reconciliation of earnings	2023 £m	2022 £m
Statutory profit for the year attributable to owners of the parent	**211**	260
Adjustments:		
• Amortisation of acquired intangible assets	**54**	42
• Other M&A activity-related items	**49**	39
• Adjustment to acquired deferred income	**–**	2
• Property restructuring costs	**32**	–
• Employee-related costs	**9**	–
• Reversal of restructuring costs	**(3)**	(20)
• Gain on disposal of subsidiaries	**–**	(53)
• Foreign currency movements on intercompany balances	**1**	(1)
• Taxation on adjustments between underlying and statutory profit before tax	**(24)**	(6)
Net adjustments	**118**	3
Underlying profit for the year (before exchange movement)	**329**	263
Exchange movement	**–**	8
Taxation on exchange movement	**–**	(2)
Net exchange movement	**–**	6
Underlying profit for the year (after exchange movement) attributable to owners of the parent	**329**	269

Exchange movement relates to the retranslation of prior year results to current year exchange rates, as shown in the table on page 67 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 cash generating unit ("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	2023 £m	2022 Restated* £m
Cost and net book amount at 1 October		**2,391**	1,877
Acquisition of subsidiaries	16.1	**11**	230
Exchange movement		**(157)**	284
Cost and net book amount at 30 September		**2,245**	2,391

Note:

* Restated for finalisation of the fair value assets acquired and liabilities assumed in the acquisition of Lockstep (see notes 1 and 16.1).

There were no accumulated impairment charges within goodwill for any of the years presented.

Cash-generating units

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

	2023 £m	2022 Restated* £m
North America	**1,462**	1,600
UK & Ireland	**354**	352
France	**219**	222
Iberia	**131**	133
Central Europe	**55**	56
Africa and the Middle East	**24**	28
	2,245	2,391

Note:

* Restated for finalisation of the fair value of assets acquired and liabilities assumed in the acquisition of Lockstep (see notes 1 and 16.1) and allocation of previously unallocated goodwill to the North America CGU (£25m), with the remainder allocated to other intangible assets and deferred tax liabilities (see note 16.1).

Annual goodwill impairment tests

The recoverable amount of a CGU or group of CGUs is determined as the higher of its fair value less costs of disposal and its value in use. In determining value in use, estimated future cash flows over a three-year period are discounted to their present value, with a terminal value based on the cash flows in the third year and an assumed long-term growth rate. The Group performed its annual test for impairment as at 30 June 2023. In all cases, the financial forecasts contained in the Group's three-year financial plan form the basis for the cash flow projections for a CGU or a group of CGUs, which is aligned with the Group's three-year strategic planning horizon.

Net operating cash flows over the three-year plan period reflect the Group's current assessment of climate change for each CGU or group of CGUs. This includes the potential impact on both revenue and cost, including the cost of any associated commitments made by the Group, which at this stage are not material. Consideration has also been given to the potential longer-term impacts which are reflected in the long-term growth rates since they are based on independently sourced longer-term growth rates of gross domestic product (GDP). Reasonably possible changes in the long-term growth rates, considering the potential impact of climate change, do not materially impact the impairment test.

The key assumptions in the value in use calculations include the discount rate, average medium-term revenue growth rates and the long-term growth rates of net operating cash flows:

- The average medium-term revenue growth rates represent the compound annual revenue growth for the first three years. The average medium-term revenue growth rate applied to each CGU's cash flow projections for plan periods of three years are calculated using the specific rates used in the preparation of the Group's three-year plan and reflects rates applicable to each territory.
- Long-term growth rates of net operating cash flows are assumed to be equal to the long-term growth rate in the GDP of the country in which the CGU's operations are primarily undertaken, reflecting the specific rates for each territory.

Average medium-term operating margins are equal to the expected operating margin across the three-year plan period. The operating margins over the three-year plan period are based on historical margins specific to each CGUs with modest improvements from expected efficiencies in scaling the business.

Range of rates used across the different CGUs	**2023**	2022
Average medium-term revenue growth rates*	**9%–18%**	8%–17%
Long-term growth rates to net operating cash flows	**1%–3%**	1%–3%

Note:

* Current year average medium-term revenue growth is based on three (2022: three) year compound annual revenue growth and excludes intercompany revenue.

6 Intangible assets continued

6.1 Goodwill continued

In accordance with IAS 36, key assumptions for the value in use calculations are disclosed for those CGUs and groups of CGUs where significant goodwill is held. These are deemed by management to be CGUs or groups of CGUs holding 10% or more 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:

2023	Local discount rate (post-tax)	Approximate local discount rate (pre-tax) equivalent	Long-term growth rate	Average medium-term revenue growth rate*
UK & Ireland	**8.9%**	**11.9%**	**1.2%**	**12.4%**
France	**8.7%**	**11.6%**	**1.2%**	**9.0%**
North America	**9.4%**	**12.5%**	**1.4%**	**18.1%**

2022	Local discount rate (post-tax)	Approximate local discount rate (pre-tax) equivalent	Long-term growth rate	Average medium-term revenue growth rate*
UK & Ireland	7.8%	10.4%	1.2%	11.4%
France	7.8%	10.4%	1.3%	7.8%
North America	8.7%	11.7%	1.4%	16.5%

Note:

* Current year average medium-term revenue growth is based on three (2022: three) year compound annual revenue growth and excludes 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 bond yields and specific tax rates to each CGU or group of CGUs. 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 2023 and the risks specific to the CGU of group of CGUs, through the inclusion of a country risk premium. As the net operating cash flows for each CGU or group of CGUs include the expected impact of inflation, a nominal post-tax discount rate is used.

Use of a post-tax discount rate is consistent with the use of post-tax cash flows in the calculations and produces a result that is not materially different from applying the equivalent pre-tax rate to pre-tax cash flows. For comparison, the equivalent pre-tax rate has been estimated by grossing up the post-tax rate and is considered to provide a reasonable approximation of the rate that would have been used if calculations were on a pre-tax basis considering there are no significant timing differences. The post-tax discount rates applied to CGUs or group of CGUs were in the range of 8.2% (2022: 7.0%) to 17.9% (2022: 16.5%), reflecting the specific rates for each territory.

Sensitivity analysis

A sensitivity analysis was performed for each of the significant CGUs or groups of CGUs and 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 exceeding its recoverable amount. Sensitivity testing assumed a reasonably possible reduction in both average medium-term revenue growth rates and average medium-term operating margins, as well as an increase in the discount rate.

Impairment charge

No impairment charge was recognised in the year (2022: £nil).

The Group performed its annual test for impairment for all CGUs as at 30 June 2023. The recoverable amount exceeded the carrying value for each CGU or group of CGUs; accordingly no impairment charge has been recognised in the year.

6.2 Other intangibles

Accounting policy

Intangible assets arising on business combinations are recognised initially at fair value at the date of acquisition. Subsequently they are carried at cost less accumulated amortisation and impairment charges. The main intangible assets recognised are brands, technology, in-process R&D, computer software, and customer relationships. Amortisation is charged to the income statement on a straight-line basis over their estimated useful lives.

The estimated useful lives are as follows:

Brand names	1 to 20 years	Customer relationships	4 to 15 years
Technology/In-process R&D (IPR&D)	3 to 8 years	Computer software	2 to 7 years

Other intangible assets that are acquired by the Group are stated at cost, which is the asset's purchase price and any directly attributable costs of preparing the asset for its intended use, less accumulated amortisation and impairment losses if applicable.

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

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

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

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

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

6 Intangible assets continued

6.2 Other intangibles continued

	Brands £m	Technology £m	Internal IPR&D £m	Computer software £m	Customer relationships £m	Total £m
Cost at 1 October 2022 restated*	**35**	**328**	**3**	**177**	**228**	**771**
Additions	**–**	**–**	**–**	**17**	**–**	**17**
Acquisition of subsidiaries	**–**	**14**	**–**	**–**	**1**	**15**
Disposals	**–**	**–**	**–**	**(2)**	**–**	**(2)**
Exchange movement	**(1)**	**(9)**	**–**	**(8)**	**(13)**	**(31)**
At 30 September 2023	**34**	**333**	**3**	**184**	**216**	**770**
Accumulated amortisation at 1 October 2022	**33**	**166**	**3**	**128**	**121**	**451**
Charge for the year	**1**	**37**	**–**	**15**	**16**	**69**
Disposals	**–**	**–**	**–**	**(2)**	**–**	**(2)**
Exchange movement	**(1)**	**(7)**	**–**	**(7)**	**(7)**	**(22)**
At 30 September 2023	**33**	**196**	**3**	**134**	**130**	**496**
Net book amount at 30 September 2023	**1**	**137**	**–**	**50**	**86**	**274**

	Brands £m	Technology £m	Internal IPR&D £m	Computer software £m	Customer relationships £m	Total £m
Cost at 1 October 2021	32	195	3	160	164	554
Additions	–	19	–	10	–	29
Acquisition of subsidiaries*	–	98	–	–	38	136
Disposals	–	–	–	(10)	–	(10)
Exchange movement	3	16	–	17	26	62
At 30 September 2022 restated*	35	328	3	177	228	771
Accumulated amortisation at 1 October 2021	30	127	3	109	95	364
Charge for the year	1	27	–	14	14	56
Disposals	–	–	–	(10)	–	(10)
Exchange movement	2	12	–	15	12	41
At 30 September 2022	33	166	3	128	121	451
Net book amount at 30 September 2022 restated*	2	162	–	49	107	320

Note:

* Restated for the finalisation of the fair value of assets acquired and liabilities assumed in the acquisition of Lockstep (see notes 1 and 16.1).

All amortisation charges in the year have been charged through selling and administrative expenses. Of these amortisation charges, those relating to acquired intangibles of £54m (primarily Brands, Technology and Customer relationships) has been classified as a recurring adjustment (2022: £42m); see note 3.6.

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	• Shorter of lease term and useful life
Plant and equipment	• 2 to 7 years
Motor vehicles	• 4 years
Office equipment	• 2 to 7 years
Right-of-use lease assets	• Shorter of lease term and useful life

Freehold land is not depreciated.

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

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

7 Property, plant and equipment continued

	Land and buildings £m	Plant and equipment £m	Motor vehicles and office equipment £m	Right-of-use assets: Property £m	Right-of-use assets: Vehicles £m	Right-of-use assets: Total £m	Total £m
Cost at 1 October 2022	**14**	**134**	**31**	**126**	**6**	**132**	**311**
Additions	**–**	**5**	**–**	**13**	**2**	**15**	**20**
Disposals	**–**	**(9)**	**(3)**	**–**	**(1)**	**(1)**	**(13)**
Exchange movement	**(1)**	**(6)**	**(1)**	**(5)**	**–**	**(5)**	**(13)**
At 30 September 2023	**13**	**124**	**27**	**134**	**7**	**141**	**305**
Accumulated depreciation at 1 October 2022	**6**	**76**	**24**	**48**	**5**	**53**	**159**
Charge for the year	**–**	**18**	**2**	**18**	**1**	**19**	**39**
Impairment	**–**	**2**	**1**	**19**	**–**	**19**	**22**
Disposals	**–**	**(9)**	**(3)**	**–**	**–**	**–**	**(12)**
Exchange movement	**–**	**(4)**	**(1)**	**(2)**	**–**	**(2)**	**(7)**
At 30 September 2023	**6**	**83**	**23**	**83**	**6**	**89**	**201**
Net book amount at 30 September 2023	**7**	**41**	**4**	**51**	**1**	**52**	**104**

	Land and buildings £m	Plant and equipment £m	Motor vehicles and office equipment £m	Right-of-use assets: Property £m	Right-of-use assets: Vehicles £m	Right-of-use assets: Total £m	Total £m
Cost at 1 October 2021	11	141	46	116	5	121	319
Additions	–	11	1	5	1	6	18
Acquisition of subsidiaries	–	2	–	–	–	–	2
Disposals	–	(27)	(18)	(5)	–	(5)	(50)
Exchange movement	3	7	2	10	–	10	22
At 30 September 2022	14	134	31	126	6	132	311
Accumulated depreciation at 1 October 2021	5	77	37	33	3	36	155
Charge for the year	–	19	3	17	2	19	41
Disposals	–	(27)	(18)	(5)	–	(5)	(50)
Exchange movement	1	7	2	3	–	3	13
At 30 September 2022	6	76	24	48	5	53	159
Net book amount at 30 September 2022	8	58	7	78	1	79	152

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

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

8 Equity investments

This note provides details of the equity investments held by the Group. These are investments the Group has made in unlisted entities that it does not control, jointly control, or have significant influence over, and are not held for trading. Further information is disclosed in note 14.1.

Accounting policy

The Group initially recognises its equity investments at cost on the balance sheet as a non-current asset. The Group has irrevocably elected to measure the equity investments currently held at fair value through other comprehensive income, as they are not held for trading. The investments will be measured at fair value at each reporting date (as required under IFRS 9), with changes in fair value of the investments recognised within other comprehensive income. Only dividend income will be recognised within the income statement.

	2023 £m	2022 £m
Fair value at 1 October	**4**	21
Fair value revaluation	**–**	30
Derecognition	**–**	(47)
Fair value at 30 September	**4**	4

The Group has recognised £nil (2022: £nil) dividend income relating to equity investments held at the balance sheet dates.

The fair value revaluation of £30m in the prior year related to the Group's investment in Brightpearl, which arose on acquisition of the remaining share capital during 2022; the equity investment in Brightpearl of £47m was subsequently derecognised. The gain on revaluation of £30m was recognised in other comprehensive income.

9 Working capital

This note provides the amounts invested by the Group in working capital balances at the end of the financial year. Working capital is made up of 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 incremental costs to acquire a contract. Trade receivables are shown net of an allowance for expected credit losses. Our trade and other payables are amounts we owe to our suppliers that have been invoiced to us or accrued by us. They also include amounts due in relation to taxes and social security from our role as an employer.

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

9 Working capital continued
9.1 Trade and other receivables

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

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

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

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

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

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

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

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

Non-current:	2023 £m	2022 £m
Customer acquisition costs	**133**	123
Other receivables	**4**	4
Prepayments	**1**	1
	138	128

Current:	2023 £m	2022 £m
Trade receivables	**259**	241
Less: allowance for expected credit losses	**(10)**	(14)
Trade receivables—net	**249**	227
Other receivables	**12**	16
Prepayments	**66**	65
Customer acquisition costs	**49**	47
	376	355

The Group has incurred £167m (2022: £144m) to obtain customer contracts and an amortisation expense of £147m (2022: £123m) 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:	2023 £m	2022 £m
At 1 October	**14**	22
Increase in allowance for expected credit losses	**4**	5
Receivables written off during the year as uncollectable	**(5)**	(4)
Unused amounts reversed	**(2)**	(9)
Exchange movement	**(1)**	–
At 30 September	**10**	14

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.

9 Working capital continued

9.1 Trade and other receivables continued

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 2023	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	1%	3%	7%	16%	61%	–
Estimated total gross carrying amount at default	224	14	6	3	12	259
Expected credit loss	(2)	–	–	(1)	(7)	(10)

Trade receivables at 30 September 2022	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	1%	2%	7%	15%	65%	–
Estimated total gross carrying amount at default	200	15	6	5	15	241
Expected credit loss	(3)	–	–	(1)	(10)	(14)

Included in selling and administrative expenses in the income statement is a debit of £4m (2022: credit of £3m) 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 carrying value of trade receivables approximate their fair value.

9.2 Trade and other payables

Accounting policy

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

Current trade and other payables can be analysed as follows:	2023 £m	2022 £m
Trade payables	35	32
Other tax and social security payable	42	44
Other payables	60	44
Accruals	241	248
	378	368

Non-current trade and other payables can be analysed as follows:	2023 £m	2022 £m
Other payables	13	6
	13	6

9.3 Deferred income

Accounting policy

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

In all material respects, current deferred income at 1 October 2022 was recognised as revenue during the year. Other than the recognition and unwind of deferred income from the sale of subscription and maintenance and support contracts, there were no significant changes in contract liability balances during the year.

10 Provisions

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

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

Accounting policy

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

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

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

10 Provisions continued

	Restructuring £m	Legal £m	Building £m	Other £m	Total £m
At 1 October 2022	**23**	**16**	**13**	**1**	**53**
• Additional provision in the year	**–**	**11**	**10**	**–**	**21**
• Provision utilised in the year	**(12)**	**(2)**	**(2)**	**–**	**(16)**
• Unused amount reversed	**(4)**	**(6)**	**(2)**	**–**	**(12)**
• Exchange movement	**1**	**–**	**–**	**–**	**1**
At 30 September 2023	**8**	**19**	**19**	**1**	**47**

	Restructuring £m	Legal £m	Building £m	Other £m	Total £m
Maturity profile					
< 1 year	**5**	**16**	**1**	**1**	**23**
1–2 years	**3**	**3**	**4**	**–**	**10**
2–5 years	**–**	**–**	**8**	**–**	**8**
> 5 years	**–**	**–**	**6**	**–**	**6**
At 30 September 2023	**8**	**19**	**19**	**1**	**47**

Restructuring provisions are for the estimated costs of Group restructuring activities and mainly relate to employee severance which remains unpaid at the balance sheet date. These provisions will be utilised as obligations are settled which is currently expected to be within two years. This includes the non-recurring restructuring costs recognised in previous years, of which £10m was utilised in the year, which remain unpaid at the balance sheet date.

Legal provisions have been made in relation to ongoing disputes with third parties and other claims against the Group. The amount and ageing of legal provisions is assessed regularly, based upon internal and external legal advice, as required. This includes the non-recurring employee-related costs, of which there were £9m additions in the year, which remain unpaid at the balance sheet date (see note 3.6). The unused amounts reversed in the year (£6m) relate to a number of different legal claims.

Building provisions relate to dilapidation charges and property-related contracts that have become onerous. The timing of the cash flows associated with building provisions is dependent on the timing of lease agreement termination. This includes the non-recurring property restructuring costs, of which there were £10m additions in the year, 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.

11 Post-employment benefits

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

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

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 post-employment benefit scheme in France. The assets of this scheme 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 this scheme 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 benefit plan assets and the imputed interest on benefit 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 on the balance sheet in respect of the defined benefit 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 benefit obligation 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.

Notes to the consolidated financial statements continued

11 Post-employment benefits continued

Pension costs included in the consolidated income statement	Note	2023 £m	2022 £m
Defined contribution schemes		**29**	23
Defined benefit plans		**1**	1
	3.3	**30**	24

Defined benefit plans

The most recent actuarial valuations of the post-employment benefit plan has been performed during the year for the year ended 30 September 2023.

Weighted average principal assumptions made by the actuaries	2023 %	2022 %
Rate of increase in pensionable salaries	**1.9**	1.9
Discount rate	**4.1**	3.7
Inflation assumption	**1.9**	1.9

Mortality rate assumptions made by the actuaries	2023 Years	2022 Years
Average life expectancy for 65-year-old male	**19**	19
Average life expectancy for 65-year-old female	**23**	23
Average life expectancy for 45-year-old male	**36**	36
Average life expectancy for 45-year-old female	**41**	41

Amounts recognised on the balance sheet	2023 £m	2022 £m
Present value of funded obligations	**(19)**	(19)
Fair value of plan assets	**–**	–
Net liability recognised on the balance sheet	**(19)**	(19)

At 30 September 2023 and 30 September 2022 there were no plan assets held in relation to the post-employment benefit plan.

Expected contributions to the post-employment benefit plan for the year ending 30 September 2024 are £1m (2022: expected contributions for the year ended 30 September 2023: £1m).

Amounts recognised in the income statement	2023 £m	2022 £m
Current service cost	**(2)**	(2)
Others (Curtailments/Plan amendments)	**1**	1
Total included within staff costs—all within selling and administrative expenses	**(1)**	(1)

Changes in the present value of the defined benefit obligation	2023 £m	2022 £m
At 1 October	**(19)**	(22)
Exchange movement	**1**	(1)
Service cost	**(2)**	(2)
Curtailments/Plan amendments	**1**	1
Actuarial gain	**–**	5
At 30 September	**(19)**	(19)

Analysis of the movement in the balance sheet liability	2023 £m	2022 £m
At 1 October	**(19)**	(22)
Exchange movement	**1**	(1)
Total expense as recognised in the income statement	**(1)**	(1)
Actuarial gain*	**–**	5
At 30 September	**(19)**	(19)

Note:

* In the current year, an actuarial gain of £nil (2022: £5m) has been recognised, gross of a £nil (2022: £2m) tax charge. The net impact of £nil (2022: £3m) has been recognised within other comprehensive income. See note 4 for the tax impact of the gain in the prior year.

Sensitivity analysis on significant actuarial assumptions		2023 £m	2022 £m
Discount rate applied to scheme obligations	+/- 0.75% p.a.	**2**	1
Salary increases	+/- 0.75% p.a.	**2**	1

12 Deferred income tax

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

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

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

Deferred tax	Other intangible assets (excluding goodwill) £m	Tax losses £m	Accounting provisions/ accruals £m	Goodwill £m	Deferred revenue £m	Share options and awards £m	Capitalised R&D £m	Other £m	Total £m
At 30 September 2021	(24)	7	30	(20)	18	10	2	12	35
Income statement credit/(debit)	7	3	(22)	(1)	(3)	1	9	(2)	(8)
Acquisition or disposal of subsidiaries*	(32)	11	–	–	–	–	–	–	(21)
Other comprehensive income movement	–	–	–	–	–	–	–	(2)	(2)
Exchange movement	(4)	1	–	(3)	–	–	1	3	(2)
At 30 September 2022 restated*	(53)	22	8	(24)	15	11	12	11	2
Income statement credit/(debit)	**3**	**2**	**2**	**(1)**	**4**	**3**	**25**	**(8)**	**30**
Acquisition or disposal of subsidiaries	**(3)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3)**
Other comprehensive income movement	**–**	**–**	**–**	**–**	**–**	**6**	**–**	**–**	**6**
Exchange movement	**8**	**(1)**	**–**	**1**	**(3)**	**–**	**–**	**(2)**	**3**
At 30 September 2023	**(45)**	**23**	**10**	**(24)**	**16**	**20**	**37**	**1**	**38**

Note:

* Restated for the finalisation of the fair value of assets acquired and liabilities assumed in the acquisition of Lockstep (see notes 1 and 16.1).

The net deferred tax asset at the end of the year is analysed below:	2023 £m	2022 Restated* £m
Deferred tax assets	**56**	19
Deferred tax liabilities	**(18)**	(17)
Net deferred tax asset	**38**	2

Note:

* Restated for the finalisation of the fair value of assets acquired and liabilities assumed in the acquisition of Lockstep (see notes 1 and 16.1).

Deferred tax assets have been recognised in respect of tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered. Each of these assets are reviewed to ensure there is sufficient evidence to support their recognition. Deferred tax liabilities for the taxable temporary differences associated with the Group's investments in subsidiaries have been appropriately recognised to the extent that it is probable that the temporary differences will reverse in the future. Deferred taxes have been provided for the future tax impact of repatriating the Group's undistributed earnings, which is consistent with the position in 2022.

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 in the above table. 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" in the above table include various balances in relation to the following items:

	2023 £m	2022 £m
Interest carried forward	**–**	11
Unremitted earnings	**(7)**	(5)
Lease liability	**10**	12
Right-of-use lease assets	**(4)**	(11)
Other amounts	**2**	4
	1	11

The Company has unrecognised carried forward losses of £111m (2022: £113m, restated for completion of Lockstep purchase price accounting) available to reduce certain future taxable profits. Deferred tax assets of £26m (2022: £24m) have not been recognised in respect of these losses due to uncertainty regarding whether suitable profits will arise in future periods against which the deferred tax asset would reverse. Of these, £18m (2022: £18m) relate to UK capital losses that are available indefinitely but cannot be used to offset UK trading profit.

13 Cash flow and net debt

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

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

Net debt represents the amount of cash held less borrowings and overdrafts.

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

13.1 Cash flow generated from continuing operations

Reconciliation of profit for the year to cash generated from continuing operations	2023 £m	2022 £m
Profit for the year	**211**	260
Adjustments for:		
• Income tax	**71**	77
• Finance income	**(12)**	(1)
• Finance costs	**45**	31
• Amortisation of intangible assets	**69**	56
• Depreciation and impairment of property, plant and equipment	**61**	41
• R&D tax credits	**(3)**	(4)
• Share-based payments	**49**	36
• Gain on disposal of subsidiaries	**–**	(53)
• Exchange movement	**(4)**	(1)
Changes in working capital (excluding effects of acquisitions and disposals of subsidiaries):		
• Increase in trade and other receivables	**(58)**	(50)
• Increase/(decrease) in trade and other payables and provisions	**22**	(70)
• Increase in deferred income	**54**	46
Cash generated from continuing operations	**505**	368

13.2 Net debt

Reconciliation of net cash flow to movement in net debt	2023 £m	2022 £m
Cash inflows/(outflows) in the year (pre-exchange movements)	**236**	(124)
Cash inflows from loans and lease liabilities	**(69)**	(331)
Change in net debt resulting from cash flows	**167**	(455)
Cash and lease liabilities recognised from acquisitions of subsidiaries or similar transactions	**1**	12
Cash and lease liabilities derecognised on disposals of subsidiaries or similar transactions	**–**	(13)
Other non-cash movements	**(15)**	(7)
Exchange movement	**19**	(23)
Movement in net debt in the year	**172**	(486)
Net debt at 1 October	**(733)**	(247)
Net debt at 30 September	**(561)**	(733)

Analysis of change in net debt	At 1 October 2022 £m	**Cash flow £m**	**Acquisition of subsidiaries £m**	**Non-cash movements £m**	**Exchange movement £m**	**At 30 September 2023 £m**
Cash and cash equivalents	489	**236**	**1**	**–**	**(30)**	**696**
Liabilities arising from financing activities						
Loans due within one year	(161)	**148**	**–**	**–**	**13**	**–**
Loans due after more than one year	(966)	**(235)**	**–**	**(1)**	**31**	**(1,171)**
Lease liabilities due within one year	(17)	**18**	**–**	**(16)**	**1**	**(14)**
Lease liabilities after more than one year	(78)	**–**	**–**	**2**	**4**	**(72)**
	(1,222)	**(69)**	**–**	**(15)**	**49**	**(1,257)**
Total	(733)	**167**	**1**	**(15)**	**19**	**(561)**

Analysis of change in net debt	At 1 October 2021 £m	Cash flow £m	Acquisition of subsidiaries £m	Disposal of subsidiaries £m	Non-cash movements £m	Exchange movement £m	At 30 September 2022 £m
Cash and cash equivalents	553	(124)	12	–	–	48	489
Cash amounts included in held for sale	14	–	–	(14)	–	–	–
Cash and cash equivalents including cash held for sale	567	(124)	12	(14)	–	48	489
Liabilities arising from financing activities							
Loans due within one year	(47)	46	–	–	(144)	(16)	(161)
Loans due after more than one year	(667)	(396)	–	–	143	(46)	(966)
Lease liabilities due within one year	(18)	19	–	–	(17)	(1)	(17)
Lease liabilities after more than one year	(82)	–	–	–	11	(7)	(78)
Lease liabilities included in held for sale	–	–	–	1	–	(1)	–
	(814)	(331)	–	1	(7)	(71)	(1,222)
Total	(247)	(455)	12	(13)	(7)	(23)	(733)

13 Cash flow and net debt continued
13.3 Cash and cash equivalents (excluding bank overdrafts)

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.

	2023 £m	2022 £m
Cash at bank and in hand	**249**	377
Short-term bank deposits	**447**	112
	696	489

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 treasury policy is to place cash and cash equivalents with counterparties which are well-established banks with high credit ratings where available.

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 2023, 99% (2022: 97%) of the cash and cash equivalents balance was deposited with financial institutions rated at least A- by Standard & Poor's.

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

13.4 Borrowings

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

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

Current	2023 £m	2022 £m
US senior loan notes	**–**	161
Lease liabilities	**14**	17
	14	178

Non-current	2023 £m	2022 £m
US senior loan notes	**–**	225
Sterling denominated bond notes	**742**	741
Euro denominated bond notes	**431**	–
Lease liabilities	**72**	78
Unamortised RCF loan costs	**(2)**	–
	1,243	1,044

In the prior year, included in US senior loan notes above was £386m of unsecured loans (after unamortised issue costs).

In the table above, US senior loan notes, sterling denominated bond notes and euro denominated bond notes ("bond notes") are stated net of unamortised issue and discount costs of £10m (2022: £9m).

Borrowings	Year issued	Interest coupon*	Maturity	2023 £m	2022 £m
Bonds					
• GBP 350m bond notes	2021	1.63%	25-Feb-31	**350**	350
• GBP 400m bond notes	2022	2.88%	8-Feb-34	**400**	400
• EUR 500m bond notes	2023	3.82%	15-Feb-28	**433**	–
US private placement					
• USD 150m loan note	2013	3.71%	20-May-23	**–**	135
• USD 50m loan note	2013	3.86%	20-May-25	**–**	45
• EUR 30m loan note	2015	2.07%	26-Jan-23	**–**	26
• USD 200m loan note	2015	3.73%	26-Jan-25	**–**	180

Note:

* This does not include the impact of cross currency interest rate swaps entered into in relation to the GBP 350m bond notes and EUR 500m bond notes.

The Group's debt is sourced from sterling and euro denominated bond notes, with a syndicated multi-currency Revolving Credit Facility (RCF) also available.

During the year, the Group issued euro denominated bond notes under its newly established Euro Medium Term Note (EMTN) programme, for a nominal amount of EUR 500m and an expiry date of February 2028. Cash proceeds from the issuance, net of transaction costs, were EUR 498m (£442m).

Bond notes at 30 September 2023 were £1,173m (30 September 2022: £741m), comprised of sterling denominated bond notes £742m (30 September 2022: £741m) and euro denominated bond notes £431m (30 September 2022: £nil).

The Group's RCF was refinanced in December 2022, with facility levels of £630m, and maturity in December 2027, with an extension option for up to two further years subject to specific provisions. In November 2023, after the balance sheet date, a one-year extension was agreed, resulting in a new maturity in December 2028. An extension option for a further year remains available subject to specific provisions. At 30 September 2023, £nil of the RCF was drawn down and associated unamortised costs of £2m had been paid and capitalised.

The previously held RCF was undrawn at 30 September 2022.

Total US senior loan notes at 30 September 2023 were £nil following the repayment of the remaining balance during the current year (30 September 2022: £386m comprising USD 400m and EUR 30m).

Further information on lease liabilities is included in note 3.4.

14 Financial instruments

This note shows details of the fair value and carrying value of short- and long-term borrowings, trade and other payables, trade and other receivables, derivative financial instruments, equity investments, 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 on 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 Group may use derivative financial instruments to manage its exposures to fluctuating foreign exchange rates and foreign currency cash flows in relation to external borrowings. These instruments are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

At the inception of designated hedge relationships, the Group documents its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

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

As at 30 September 2023	Note	IFRS 9 classification				
		At amortised cost £m	Derivatives used for hedging £m	At fair value through profit or loss £m	At fair value through other comprehensive income £m	Total £m
Non-current assets						
Equity investments	8	**–**	**–**	**–**	**4**	**4**
Trade and other receivables: other receivables	9.1	**2**	**–**	**2**	**–**	**4**
Derivative financial instruments—cross currency interest rate swaps		**–**	**1**	**–**	**–**	**1**
Current assets						
Trade and other receivables: trade receivables	9.1	**249**	**–**	**–**	**–**	**249**
Trade and other receivables: other receivables	9.1	**11**	**–**	**1**	**–**	**12**
Cash and cash equivalents	13.3	**696**	**–**	**–**	**–**	**696**
Current liabilities						
Trade and other payables excluding other tax and social security	9.2	**(336)**	**–**	**–**	**–**	**(336)**
Borrowings	13.4	**(14)**	**–**	**–**	**–**	**(14)**
Non-current liabilities						
Borrowings	13.4	**(1,243)**	**–**	**–**	**–**	**(1,243)**
Trade and other payables: other payables		**(13)**	**–**	**–**	**–**	**(13)**
Derivative financial instruments—cross currency interest rate swaps	14.5	**–**	**(20)**	**–**	**–**	**(20)**
		(648)	**(19)**	**3**	**4**	**(660)**

As at 30 September 2022	Note	IFRS 9 classification				
		At amortised cost £m	Derivatives used for hedging £m	At fair value through profit or loss £m	At fair value through other comprehensive income £m	Total £m
Non-current assets						
Equity investments	8	–	–	–	4	4
Trade and other receivables: other receivables	9.1	1	–	3	–	4
Current assets						
Trade and other receivables: trade receivables	9.1	227	–	–	–	227
Trade and other receivables: other receivables	9.1	15	–	1	–	16
Cash and cash equivalents	13.3	489	–	–	–	489
Current liabilities						
Trade and other payables excluding other tax and social security	9.2	(324)	–	–	–	(324)
Borrowings	13.4	(178)	–	–	–	(178)
Non-current liabilities						
Borrowings	13.4	(1,044)	–	–	–	(1,044)
Trade and other payables: other payables		(6)	–	–	–	(6)
Derivative financial instruments—cross currency interest rate swaps	14.5	–	(60)	–	–	(60)
		(820)	(60)	4	4	(872)

14 Financial instruments continued

14.1 Fair values of financial instruments

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

Borrowings (excluding lease liabilities)

The fair value of the sterling and euro denominated bond notes are determined by reference to quoted market prices and therefore can be considered as a level 1 fair value as defined within IFRS 13.

The fair value of US loan notes held in the prior year is determined by reference to interest rate movements on the USD private placement market and therefore can be considered as a level 2 fair value as defined within IFRS 13.

The Group does not hold any financial liabilities whose fair value would be considered as a level 3 fair value as defined within IFRS 13.

The respective book and fair values of bond notes and loan notes are included in the table below.

			2023		2022
	Note	**Book value £m**	**Fair value £m**	Book value £m	Fair value £m
Long-term borrowing (excluding lease liabilities)	13.4	**(1,171)**	**(1,014)**	(966)	(753)
Short-term borrowing (excluding lease liabilities)	13.4	**–**	**–**	(161)	(158)

Contingent consideration receivable

The Group recognises contingent consideration receivable of £3m (2022: £4m) relating to the disposal of Sage Payroll Solutions in the year ended 30 September 2019. This is classified as a financial asset measured at fair value through profit or loss. Its fair value is determined using a discounted cash flow valuation technique. The main inputs to the calculation for which assumptions have been made are the discount rate and the period over which the consideration will be received. This is a level 3 fair value under IFRS 13.

Equity investments

The fair value of the unlisted equity investments held by the Group is determined using a market-based valuation approach. The significant unobservable inputs used in level 3 fair value measurement are transaction prices paid for identical or similar instruments of the investee and revenue growth factors.

Derivative financial instruments—cross currency interest rate swaps

The fair value of the cross currency interest rate swaps held by the Group is determined using a discounted cash flow valuation technique at market rates and therefore can be considered as a level 2 fair value as defined within IFRS 13.

14.2 Maturity of financial liabilities

The maturity profile of the undiscounted contractual amount of the Group's financial liabilities (excluding cross currency interest rate swaps) at 30 September was as follows:

				2023
	Borrowings: bank loans and bond notes £m	**Borrowings: lease liabilities £m**	**Trade and other payables excluding other tax and social security £m**	**Total £m**
In less than one year	**35**	**15**	**336**	**386**
In more than one year but not more than five years	**562**	**56**	**13**	**631**
In more than five years	**825**	**23**	**–**	**848**
	1,422	**94**	**349**	**1,865**

				2022
	Borrowings: bank loans, bond notes and loan notes £m	Borrowings: lease liabilities £m	Trade and other payables excluding other tax and social security £m	Total £m
In less than one year	192	20	324	536
In more than one year but not more than five years	325	60	6	391
In more than five years	825	28	–	853
	1,342	108	330	1,780

The maturity profile of the undiscounted contractual amounts of the Group's cross-currency interest rate swaps, including expected interest payments, at 30 September 2023 was as follows:

			2023
	Receipts £m	**Payments £m**	**Total £m**
In less than one year	**27**	**(33)**	**(6)**
In more than one year but not more than five years	**640**	**(668)**	**(28)**
In more than five years	**367**	**(378)**	**(11)**
	1,034	**(1,079)**	**(45)**

			2022
	Receipts £m	Payments £m	Total £m
In less than one year	4	(7)	(3)
In more than one year but not more than five years	23	(37)	(14)
In more than five years	373	(423)	(50)
	400	(467)	(67)

14 Financial instruments continued

14.3 Borrowing facilities

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

	2023 £m	2022 £m
Expiring in more than one year but not more than five years	**630**	781

The facility has been arranged to help finance the expansion of the Group's activities. This facility incurs commitment fees at market rates. In November 2023, after the balance sheet date, a one-year extension was agreed to the facility, resulting in a new maturity in December 2028. One extension option remains available for a further year subject to specific provisions.

14.4 Market risk sensitivity analysis

Financial instruments affected by market risks include borrowings and deposits.

The following analysis is intended to illustrate the sensitivity to changes in market variables, being sterling/US Dollar and sterling/euro exchange rates.

The sensitivity analysis assumes reasonable movements in foreign exchange rates before the effect of tax. 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 equity resulting from changes in sterling/US Dollar and sterling/Euro exchange rates:

	2023	2022
	Equity gains/(losses) £m	Equity gains/(losses) £m
10% strengthening of sterling versus the US Dollar	**51**	62
10% strengthening of sterling versus the Euro	**(9)**	2
10% weakening of sterling versus the US Dollar	**(63)**	(75)
10% weakening of sterling versus the Euro	**10**	(3)

14.5 Hedge accounting

Accounting policy

On transition to IFRS 9, the Group elected to continue to apply the hedge accounting requirements of IAS 39. The Group applies hedge accounting to external borrowings and cross-currency interest rate swap contracts 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 and accumulated in the foreign currency translation reserve. 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.

Where borrowings denominated in a currency other than sterling, or cross-currency interest rate swap contracts, are used to hedge the Group's exposure to foreign currency exchange movements of its net investment in its subsidiaries, these relationships are designated as net investment hedges for accounting purposes. The hedges are documented and assessed for effectiveness on an ongoing basis.

The Group applies hedge accounting to certain exchange differences arising between the functional currencies of a foreign operation and Parent Company, regardless of whether the net investment is held directly or through an intermediate parent.

The Group applies cash flow hedge accounting to cross-currency interest rate swap contracts that are designated as a hedge of cash flows arising from foreign currency denominated borrowings. The effective portion of changes in the fair value of such a derivative is recognised in other comprehensive income and accumulated in the hedging reserve. The effective portion of changes in fair value of the derivative that is recognised in other comprehensive income is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge.

Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve are immediately reclassified to profit or loss.

The Group designates the change in fair value of the forward element of forward exchange contracts as the hedging instrument in cash flow hedging relationships. The amount accumulated in the hedging reserve is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss.

14 Financial instruments continued

14.5 Hedge accounting continued

Net investment hedges

The Group hedges the risk exposure to foreign currency exchange movements of its net investment in its subsidiaries in the US and Eurozone.

Until repayment of the US senior loan notes during the year, a proportion of the Group's external US Dollar denominated borrowings, and the total of its euro denominated borrowings, were designated as hedging instruments. Subsequent to repayment of the US senior loan notes, a portion of the Groups external euro denominated borrowings, relating to the newly issued EUR 500m bond was designated as hedging instruments.

The underlying risk of the hedging instruments exactly matches the hedged risk as the borrowings and net investments in subsidiaries are denominated in the same currencies, giving a hedge ratio of 1:1. Hedge ineffectiveness will arise if the carrying amount of the net investment falls below the carrying amount of the designated borrowings.

During the year, the Group has designated USD cross-currency interest rate swap contracts totalling £614m (USD 750m) (2022: £350m, USD 429m) as hedging instruments to hedge risk exposure to foreign currency exchange movements of its net investment in its subsidiaries in the US. Sources of ineffectiveness on this hedge relationship will arise from a difference in credit ratings between the counterparties and modifications to the terms of either the hedged item or the instrument. During the year, £nil (2022: £nil) has been recognised in the income statement as ineffective.

Changes in the carrying amount of the loan notes relate to foreign exchange movements recognised through other comprehensive income. The change in the carrying amount of the derivative financial instrument is due to fair value movements also recognised through other comprehensive income.

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

As at 30 September 2023		Nominal amount	**Carrying amount* £m**	**Change in carrying amount as a result of movements in the year recognised in OCI £m**
Non-current borrowings	EUR bond notes	EUR 156m	**136**	**(3)**
Derivative financial instruments	Cross-currency interest rate swap	USD 429m	**18**	**(42)**
Derivative financial instruments	Cross-currency interest rate swap	USD 321m	**(1)**	**(1)**
N/A	USD loan notes**	USD 250m	**–**	**(21)**
N/A	USD loan notes**	USD 150m	**–**	**(12)**
			153	**(79)**

Note:

* Liability/(asset) position.

** Repaid during the year (see note 13.4).

As at 30 September 2022		Nominal amount	Carrying amount £m	Change in carrying amount as a result of movements in the year recognised in OCI £m
Non-current borrowings	USD loan notes	USD 250m	225	39
Current borrowings	USD loan notes	USD 150m	135	23
Current borrowings	EUR loan notes	EUR 30m	26	1
Derivative financial instruments	Cross-currency interest rate swap	USD 429m	60	60
			446	123

The impact of the hedged item on the consolidated balance sheet is as follows:

	2023		2022	
	Change in value of hedged item used to determine hedge effectiveness £m	**Foreign currency translation reserve £m**	Change in value of hedged item used to determine hedge effectiveness £m	Foreign currency translation reserve £m
Net investment in foreign subsidiaries—USD	**(76)**	**79**	122	155
Net investment in foreign subsidiaries—EUR	**(3)**	**1**	1	4
	(79)	**80**	123	159

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.

Cash flow hedges

The Group hedges the risk exposure to foreign currency exchange movements of its foreign currency borrowings.

During the year, the Group issued euro-denominated bond notes for a nominal amount of EUR 500m. With respect to EUR 300m of this balance, the Group has designated cross currency swap contracts (to receive fixed euro and pay fixed sterling) as the hedging instruments in a cash flow hedge relationship to mitigate the risk of changes in the denominated cash flows related to the euro borrowings attributable to changes in the exchange rate, for which hedge accounting has been applied.

The underlying risk of the hedging instruments exactly matches the hedged risk as the hedging instrument and euro borrowings are arranged on the same payment profile, for the same interest rate and nominal amount, giving a hedge ratio of 1:1. Hedge ineffectiveness will arise if the carrying amount of the euro borrowings falls below the amount of the cross currency swap contract, for example on early repayment of the euro borrowings.

Sources of ineffectiveness on this hedge relationship will arise from a difference in credit ratings between the counterparties and modifications to the terms of either hedged item or instrument. At 30 September 2023, £nil (2022: £nil) has been recognized in profit or loss due to ineffectiveness. The hedges are documented and are assessed for effectiveness on an ongoing basis.

Gains and losses recognised in other comprehensive income on currency swap contracts are recognised in profit or loss (within finance costs) in the periods in which the hedged forecast transaction affects profit or loss. A reconciliation of movements in the hedging reserve in relation to the cash flow hedging instrument is provided in note 15.3.

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

As at 30 September 2023		Nominal amount	**Carrying amount* £m**	**Change in carrying amount as a result of net movements in the year recognised in OCI £m**	**Change in carrying amount as a result of net movements in the year recognised in P&L £m**
Derivative financial instruments	Cross-currency interest rate swap	EUR 300m	**2**	**(4)**	**6**
			2	**(4)**	**6**

Note:

* Liability position.

The Group did not apply any cash flow hedging in the previous year.

Further information on the Group's exposure to foreign currency risk and how the risk is managed is included in note 14.6.

14 Financial instruments continued

14.6 Financial risk management

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

Capital risk

The Group's objectives when managing capital (defined as net debt plus equity) are to safeguard its ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders, while maintaining an appropriate balance of debt and equity funding. The Group manages its capital structure through regular review by the Board and makes adjustments to it with respect to changes in economic conditions and our strategic objectives. Priorities for capital allocation are organic and inorganic investment, including through acquisitions of complementary technology and partnerships; the progressive growth of the dividend; and the return of surplus capital to shareholders, if appropriate. Over the medium term, the Group plans to operate in a broad range of 1–2x net debt to EBITDA, with flexibility to move outside this range as the business needs require.

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 low operational credit risk due to the transactions being principally of a high-volume, low-value, and short maturity. The Group has no significant concentration of operational credit risk, with the exposure spread over a large number of well-diversified counterparties and customers.

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

Further information on the credit risk management procedures applied to trade receivables is given in note 9.1 and to cash and cash equivalents in note 13.3. 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's borrowings at 30 September 2023 principally comprise sterling and euro denominated bond notes, which are at fixed interest rates, and a bank RCF, which is subject to floating interest rates. Additionally, the Group is exposed to interest rate risk on floating rate deposits. 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 2023, the Group had £696m (2022: £489m) of cash and cash equivalents, while its borrowings comprised:

- Sterling denominated bond notes of £742m (2022: £741m), comprising a £350m bond issued in 2021 and a £400m bond issued in 2022. The Group is also party to a cross-currency interest rate swap in relation to the £350m bond, as a result of which the bond had an effective average fixed interest rate of 2.45% (2022: 1.89%). The £400m bond had an average fixed coupon of 2.88% (2022: 2.88%).
- Euro denominated bond notes of £433m (2022: £nil). The Group is also party to cross-currency interest rate swaps in relation to a part of this EUR 500m bond, as a result of which the bond had an effective average fixed interest rate of 4.43% (2022: nil).
- Unsecured bank loans of £nil (2022: £nil), which comprises an undrawn RCF.

At 30 September 2022, the Group also held US private placement loan notes of £386m which attracted an average fixed interest rate of 3.56%.

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.

A portion of the Group's external euro denominated borrowings (EUR 156m of a nominal EUR 500m) are designated as a hedge of the net investment in its subsidiaries in the Eurozone. The foreign exchange movements on translation of the portion of these borrowings into sterling have therefore been recognised in the translation reserve. In the prior year, all of the Group's external US Dollar denominated borrowings and euro denominated borrowings were similarly designated as a hedge of the net investment in its subsidiaries in the US and Eurozone.

During the current year, the Group entered into cross-currency swap contracts to both receive fixed sterling and pay fixed US dollars (£264m, USD 321m), as well as receive fixed euros and pay fixed sterling (EUR 300m, £264m).

The euro-sterling swap contacts have been designated as the hedging instruments in a cash flow hedge relationship to mitigate the risk of changes in the cash flows related to the remaining euro denominated borrowings attributable to changes in exchange rate. The average interest rate of the euro-sterling swap contracts is 4.98%, fixed for the lifetime of the instrument. See note 14.5.

The US Dollar-sterling swap contracts have been designated as a hedge of the Group's net investment in its subsidiaries in the US. See note 14.5.

During the prior year, the Group also entered into cross-currency swap contracts to receive fixed sterling and pay fixed US dollars (£350m, USD 429m), and designated this as a hedge of the net investment in its subsidiaries in the US. See note 14.5.

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 2023 and 30 September 2022, these exposures were immaterial to the Group.

15 Equity

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

The Group utilises share award schemes as part of its employee remuneration package. Share schemes for our employees primarily include The Sage Group Performance Share Plan for Directors and senior executives, The Sage Group Restricted Share Plan for senior management and the Sage Save and Share Plan (the "SAYE Plan"). 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 shares outstanding.

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

15.1 Ordinary shares

Accounting policy

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

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

Issued and fully paid ordinary shares of $1^{4/77}$ pence each	**2023 shares**	**2023 £m**	2022 shares	2022 £m
At 1 October	**1,100,789,295**	**12**	1,120,789,295	12
Cancellation of treasury shares	**–**	**–**	(20,000,000)	–
At 30 September	**1,100,789,295**	**12**	1,100,789,295	12

15.2 Share-based payments

Accounting policy

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

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

All outstanding Sage Performance Share Plans (PSPs) are subject to some non-market performance conditions. 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 awards 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 £49m (2022: £36m), all of which related to equity-settled share-based payment transactions.

Scheme	2023 £m	2022 £m
Performance Share Plan	**4**	5
Restricted Share Plan	**42**	29
Share options	**3**	2
Total	**49**	36

£6m of the charge for the year (2022: £nil) relates to acquisition related remuneration and is reported as a recurring adjustment within other M&A activity-related items. See note 3.6.

The Sage Group Performance Share Plan

Annual grants of performance shares will normally be made to Executive Directors after the preliminary declaration of the annual results. Under the Performance Share Plan, 857,978 (2022: 1,036,987) awards were made during the year.

Awards for 2021

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

The revenue targets are based on compound annualised recurring revenue growth and Cloud Native annualised recurring revenue over the performance period. Where annualised recurring revenue is between prescribed target ranges, the extent to which the revenue performance conditions are satisfied will be calculated on a straight-line, pro-rata basis within a defined range.

2021 awards	Range 1	Range 2
Annualised recurring revenue growth (%)	6.0%–8.5%	8.5%–10.0%
Performance condition satisfied (%)	7%–28%	28%–35%
Cloud native annualised recurring revenue (£m)	£600m–£750m	£750m–£900m
Performance condition satisfied (%)	7%–28%	28%–35%

The performance target relating to TSR measures share price performance against a designated comparator group. Where 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 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 for 2021 onwards is the companies comprised in the FTSE 100 Index at the start of the performance period, excluding financial services and extraction companies.

Awards for 2022

These performance shares are subject to a service condition and three performance conditions. Performance conditions are weighted 55% on the achievement of a financial performance target, 30% on the achievement of a TSR target, and 15% on the achievement of ESG targets.

The financial performance target is based on the achievement of Sage Business Cloud (SBC) Penetration targets for the final year of the performance period. Where SBC Penetration is between prescribed targets, the extent to which the financial performance condition is satisfied will be calculated on a straight-line, pro-rata basis within a defined range.

2022 awards	Range 1	Range 2
• SBC Penetration (%)	75%–80%	80%–85%
• Performance condition satisfied (%)	11%–44%	44%–55%

The performance target relating to TSR measures share price performance against a designated comparator group. Where 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 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 for 2022 onwards is the companies comprised in the FTSE 100 Index at the start of the performance period, excluding financial services and extraction companies.

15 Equity continued

15.2 Share-based payments continued

The performance targets relating to ESG are based on the achievement of targets relating to (i) the aggregate number of volunteering hours recorded through the Sage Foundation during the performance period, (ii) the aggregate number of individuals supported through Sage's Sustainability and Society strategy during the performance period, and (iii) Sage's ESG Strategy Impact at the end of the performance period. Where aggregate volunteering hours and aggregate individuals supported are between prescribed targets, the extent to which the ESG performance conditions are satisfied will be calculated on a straight-line, pro-rata basis within a defined range.

2022 awards	Range 1	Range 2
• Volunteering hours (number)	400,000–500,000	500,000–600,000
• Performance condition satisfied (%)	0.75%–3%	3%–3.75%
• Individuals supported (number)	22,000–27,000	27,000–32,000
• Performance condition satisfied (%)	0.75%–3%	3%–3.75%

Sage's ESG Strategy Impact will be measured by (i) its alignment to the Sustainability Accounting Standards Board's (SASB's) standards, (ii) its achievement of Global Reporting Initiative's (GRI's) sustainability reporting standards (GRI CORE and GRI COMPREHENSIVE are the two levels to which Sage can align), and (iii) achievement of a top 10% ranking in at least 3 ESG rating schemes.

Given an achievement of full SASB alignment, achieving GRI CORE would result in the performance condition being 1.5% satisfied, while achieving GRI COMPREHENSIVE would result in the performance condition being 6% satisfied. Where the ESG Strategy Impact is between GRI CORE and GRI COMPREHENSIVE, the extent to which the ESG performance condition is satisfied will be calculated on a straight-line, pro-rata basis within this defined range of 1.5%–6%.

Given an achievement of full SASB alignment and GRI COMPREHENSIVE, achieving a top 10% ranking in at least 3 ESG rating schemes would result in the performance condition being 7.5% satisfied. Where a top 10% ranking is between zero and 3 ESG rating schemes, the extent to which the ESG performance condition is satisfied will be calculated on a straight-line, pro-rata basis within this defined range of 6%–7.5%.

Awards for 2023

These performance shares are subject to a service condition and three performance conditions. Performance conditions are weighted 50% on the achievement of a financial performance target, 30% on the achievement of a TSR target, and 20% on the achievement of ESG targets.

The financial performance target is based on the achievement of Sage Business Cloud (SBC) Penetration targets for the final year of the performance period. Where SBC Penetration is between prescribed targets, the extent to which the financial performance condition is satisfied will be calculated on a straight-line, pro-rata basis within a defined range.

2023 awards	**Range 1**	**Range 2**
• SBC Penetration (%)	**85%–89%**	**89%–92%**
• Performance condition satisfied (%)	**10%–40%**	**40%–50%**

The performance target relating to TSR measures share price performance against a designated comparator group. Where 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 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 for 2023 onwards is the companies comprised in the FTSE 100 Index at the start of the performance period, excluding financial services and extraction companies.

The performance targets relating to ESG are based on the achievement of targets relating to (i) a Protect the Planet condition, (ii) a Tech for Good condition, and (iii) two Diversity, Equity and Inclusion conditions. Where attainment of each of the ESG condition are between prescribed targets, the extent to which the ESG performance conditions are satisfied will be calculated on a straight-line, pro-rata basis within defined ranges as detailed below.

The Protect the Planet condition will be measured by reference to the reduction in the Group's Scope 1, 2, and 3 carbon emissions during the performance period.

2023 awards	**Range 1**	**Range 2**
• Reduction in carbon emissions (%)	**6.9%–13.8%**	**13.8%–20.7%**
• Performance condition satisfied (%)	**1.5%–6%**	**6%–7.5%**

The Tech for Good condition will be measured by reference to the number of Sage products that have embedded functionality for carbon accounting at the end of the performance period.

2023 awards	Range 1	Range 2
• Number of products (number)	**3–6**	**6–8**
• Performance condition satisfied (%)	**1%–4%**	**4%–5%**

The Diversity, Equity and Inclusion conditions will be measured by reference to (i) the inclusion score in the employee engagement survey undertaken in the last financial year of the performance period, and (ii) the percentage of leadership teams meeting Sage's global gender diversity target at the end of the performance period.

2023 awards	Range 1	Range 2
• Inclusion score (number)	**82–84**	**84–86**
• Performance condition satisfied (%)	**0.75%–3%**	**3%–3.75%**
• Percentage of teams (%)	**50%–65%**	**65%–80%**
• Performance condition satisfied (%)	**0.75%–3%**	**3%–3.75%**

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 2022
Share price at grant date	**8.02**
Number of employees	**9**
Shares under award	**857,978**
Vesting period (years)	**3**
Expected volatility	**28.4%**
Award life (years)	**3**
Expected life (years)	**3**
Risk-free rate	**3.29%**
Fair value per award	**6.55**

Grant date	December 2021	February 2022	18 May 2022	24 May 2022
Share price at grant date	7.74	7.11	6.51	6.65
Number of employees	6	2	3	1
Shares under award	458,777	399,859	100,225	78,126
Vesting period (years)	3	3	3	3
Expected volatility	27.6%	26.6%	28.2%	28.2%
Award life (years)	3	3	3	3
Expected life (years)	3	3	3	3
Risk-free rate	0.50%	1.04%	1.49%	1.46%
Fair value per award	6.29	5.82	5.72	5.70

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

15 Equity continued

15.2 Share-based payments continued

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

	2023 Number '000s	2023 Weighted average exercise price £	2022 Number '000s	2022 Weighted average exercise price £
Outstanding at 1 October	**3,055**	**–**	4,260	–
Awarded	**858**	**–**	1,037	–
Forfeited	**(536)**	**–**	(899)	–
Exercised	**(930)**	**–**	(1,343)	–
Outstanding at 30 September	**2,447**	**–**	3,055	–
Exercisable at 30 September	**–**	**–**	–	–

	2023 Weighted average remaining life years		2022 Weighted average remaining life years	
Range of exercise prices	**Expected**	**Contractual**	Expected	Contractual
N/A	**1.2**	**1.2**	0.9	0.9

The Sage Group Restricted Share Plan

The Group's Restricted Share Plan is a long-term incentive plan issued to senior management across the Group.

These contingent share awards are 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. These awards only have service conditions and their fair values are equal to the share price on the date of grant. During the year 6,553,637 (2022: 10,816,324) awards were made, with fair values ranging from 8.12p to 8.43p.

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

	2023 Number '000s	2023 Weighted average exercise price £	2022 Number '000s	2022 Weighted average exercise price £
Outstanding at 1 October	**17,727**	**–**	12,082	–
Awarded	**6,554**	**–**	10,816	–
Forfeited	**(1,527)**	**–**	(2,005)	–
Exercised	**(4,120)**	**–**	(3,166)	–
Outstanding at 30 September	**18,634**	**–**	17,727	–
Exercisable at 30 September	**–**	**–**	–	–

	2023 Weighted average remaining life years		2022 Weighted average remaining life years	
Range of exercise prices	**Expected**	**Contractual**	Expected	Contractual
N/A	**1.6**	**1.6**	2.0	2.0

Share options

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

The Save and Share Plan is a savings-related share option scheme for employees of the Group and is available to employees in the majority of countries in which the Group operates. The UK plan is an HMRC-approved savings-related share option scheme, and similar arrangements apply in other countries where they are available. The fair value of the options is expensed over the service period of three years, with a forfeiture assumption included for any anticipated lapses as employees leave the Group.

During the year, 1,579,315 (2022: 1,628,909) options were granted under the terms of the Save and Share.

As part of certain acquisitions, the Group awards certain employees with options proportional to previously held options in the company acquired. Nil (2022: nil) options have been granted in the year.

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

	2023 Number '000s	**2023** Weighted average exercise price £	2022 Number '000s	2022 Weighted average exercise price £
Outstanding at 1 October	**963**	**3.45**	1,628	2.96
Forfeited	**(15)**	**3.20**	(28)	4.88
Exercised	**(243)**	**3.95**	(637)	1.61
Outstanding at 30 September	**705**	**3.28**	963	3.45
Exercisable at 30 September	**705**	**3.28**	963	3.45

	2023 Weighted average remaining life years		2022 Weighted average remaining life years	
Range of exercise prices	**Expected**	**Contractual**	Expected	Contractual
72p–702p	**–**	**3.0**	–	4.0

15 Equity continued

15.3 Other reserves

All components of other reserves are presented on a consolidated basis on the face of the consolidated statement of changes in equity.

Other reserves can be analysed as follows:	**Translation reserve £m**	**Hedging reserve £m**	**Merger reserve £m**	**Total £m**
At 1 October 2022	**206**	**–**	**61**	**267**
Exchange differences on translating foreign operations and net investment hedges	**(82)**	**–**	**–**	**(82)**
Cash flow hedges	**–**	**4**	**–**	**4**
At 30 September 2023	**124**	**4**	**61**	**189**

Other reserves can be analysed as follows:	Translation reserve £m	Merger reserve £m	Total £m
At 1 October 2021	42	61	103
Exchange differences on translating foreign operations and net investment hedges	177	–	177
Exchange differences recycled through income statement on sale of foreign operations	(13)	–	(13)
At 30 September 2022	**206**	**61**	**267**

This note further explains the nature and purpose of the translation, hedging and merger reserves.

Translation reserve

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

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

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss.

Merger reserve

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

15.4 Retained earnings

Retained earnings	2023 £m	2022 £m
At 1 October	**570**	448
Profit for the year	**211**	260
Actuarial gain on post-employment benefit obligations, net of tax (note 11)	**–**	3
Employee share option scheme—value of employee services including deferred tax	**57**	37
Proceeds from issuance of treasury shares	**11**	7
Fair value gain on reassessment of equity investment	**–**	30
Purchase of shares by Employee Benefit Trust	**(1)**	(32)
Dividends paid to owners of the parent (note 15.5)	**(190)**	(183)
At 30 September	**658**	570

Treasury shares

At 30 September 2023, the Group held 73,906,470 (2022: 81,168,903) treasury shares.

During the year, the Group agreed to satisfy the vesting of certain share awards, utilising a total of 7,262,433 (2022: 6,396,278) treasury shares.

During the prior year, the Group cancelled 20,000,000 treasury shares, which reduced the number of Ordinary shares to 1,100,789,295 at 30 September 2022. See note 15.1.

Shares purchased under the Group's buyback programme are either cancelled or are retained in treasury and reissued in the future. Where the shares are retained as treasury shares, they represent a deduction from equity attributable to owners of the parent.

In the prior year, the Group purchased a total of 27,979,129 Ordinary shares, initially held as treasury shares, as part of a non-discretionary share buyback programme entered into on 6 September 2021 and completed on 24 January 2022. Consideration of £249m for this share buyback programme was paid in the prior year.

15 Equity continued

15.4 Retained earnings continued

Employee Benefit Trust

The Employee Benefit Trust ("EBT") holds shares in the Company and was set up for the benefit of Group employees. The EBT 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. Once purchased, shares are not sold back into the market. The EBT holds 4,419,478 ordinary shares in the Company (2022: 4,610,875) at a cost of £34m (2022: £33m) with £1m of shares purchased during the year (2022: £32m), funded by the Company, and a nominal value of £nil (2022: £nil).

During the year, the EBT utilised 258,505 shares it held to satisfy the vesting of certain share awards (2022: nil). The EBT did not receive additional funds for future purchase of shares in the market (2022: £nil).

The costs of funding and administering the EBT are charged to the profit and loss account of the Company in the period to which they relate. The market value of the shares of the Company held by the EBT at 30 September 2023 was £44m (2022: £32m).

15.5 Dividends

Accounting policy

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

	2023 £m	2022 £m
Final dividend paid for the year ended 30 September 2022 of 12.10p per share	**123**	–
(2022: final dividend paid for the year ended 30 September 2021 of 11.63p per share)	**–**	119
Interim dividend paid for the year ended 30 September 2023 of 6.55p per share	**67**	–
(2022: interim dividend paid for the year ended 30 September 2022 of 6.30p per share)	**–**	64
	190	183

In addition, the Directors are proposing a final dividend in respect of the financial year ended 30 September 2023 of 12.75p per share, which will absorb an estimated £131m of shareholders' funds. The Company's distributable reserves are sufficient to support the payment of this dividend. If approved at the AGM, it will be paid on 9 February 2024 to shareholders who are on the register of members on 12 January 2024. These financial statements do not reflect this proposed dividend payable.

16 Acquisitions and disposals

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

Accounting policy

Acquisitions:

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

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

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

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

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

Acquisitions of certain legal entities can be accounted for as an asset acquisition, rather than a business combination, when they satisfy the 'concentration test' exemption under IFRS 3 "Business Combinations". This is often the case where the value of the acquired legal entity largely comprises a single asset or technology. Where this is applied, no goodwill is recognised as part of the acquisition accounting.

Businesses held for sale and discontinued operations:

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

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

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

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

16 Acquisitions and disposals continued

16.1 Acquisitions

Corecon

On 5 May 2023, the Group acquired 100% equity capital and voting rights of Corecon Technologies Inc ("Corecon"), a company based in the US, for total cash consideration of £13m. Corecon is a cloud native subscription-based software company used to streamline and manage project operations focused on the construction industry.

Summary of acquisition	Total £m
Acquisition-date fair value of consideration	13
Fair value of identifiable net assets	(12)
Deferred tax liability	2
Goodwill	**3**

Acquired intangible assets comprises technology, at a fair value of £10m, which will be amortised over a useful economic life of 8 years, in line with comparable previously acquired technology and Sage policy range of 3 to 8 years, and customer relationships at a fair value of £1m which will be amortised over a useful economic life of 5 years consistent with Sage policy.

A summary of the acquired intangible assets is set out below:

Acquired intangible assets	Valuation £m	Useful economic life (years)
Customer relationships	**1**	5
Technology	**10**	8
Acquired intangible assets	**11**	

Acquired goodwill of £3m comprises the fair value of the acquired control premium, workforce in place and the expected synergies. The goodwill has been allocated to the Group's geographic CGUs where the underlying benefit arising from the acquisition is expected to be realised. This is predominantly within North America. No goodwill is expected to be deductible for tax purposes. The results of the business are allocated to the North America operating segment in line with the underlying operations.

The outflow of cash and cash equivalents on the acquisition is as follows:

	Total £m
Cash consideration	(13)
Cash and cash equivalents acquired	1
Net cash outflow	**(12)**

Transaction costs of £3m relating to the acquisition have been included in selling and administrative expenses, classified as other M&A activity-related items within recurring adjustments between underlying and statutory results. These costs relate to advisory, legal and other professional services, see note 3.6.

Arrangements have been put in place for retention payments to remunerate employees of Corecon for future services. The amount recognised to date of £1m is included in selling and administrative expenses, in the consolidated income statement, classified as other M&A activity-related items. The total cost of these arrangements will be recognised in future periods over the retention period, contingent on employment.

The consolidated income statement includes revenue and loss after tax relating to Corecon for the period since the acquisition date, of which both are immaterial.

On an underlying and statutory basis, the impact on revenue and profit after tax would have been immaterial, if Corecon had been acquired at the start of the financial year and included in the Group's results for the year ended 30 September 2023.

Spherics

On 11 October 2022, the Group acquired 100% equity capital and voting rights of Spherics Technology Ltd ("Spherics"), a company based in the UK, for total cash consideration £11m. Spherics provides a carbon accounting software solution to help businesses easily understand and reduce their environmental impact.

Summary of acquisition	Total £m
Acquisition-date fair value of consideration	11
Fair value of identifiable net assets	(4)
Deferred tax liability	1
Goodwill	**8**

Acquired intangible assets comprises technology, at a fair value of £4m, which will be amortised over a useful economic life of 8 years.

Acquired goodwill of £8m comprises the fair value of the acquired control premium, workforce in place and the expected synergies. The goodwill has been allocated to the Group's UK & Ireland CGU where the underlying benefit arising from the acquisition is expected to be realised. No goodwill is expected to be deductible for tax purposes. The results of the business are allocated to the UK & Ireland operating segment in line with the underlying operations.

The outflow of cash and cash equivalents on the acquisition is as follows:

	Total £m
Cash consideration	(11)
Cash and cash equivalents acquired	–
Net cash outflow	**(11)**

Transaction costs of £1m relating to the acquisition have been included in selling and administrative expenses, classified as other M&A activity-related items within recurring adjustments between underlying and statutory results. These costs relate to advisory, legal and other professional services, see note 3.6.

Arrangements have been put in place for retention payments to remunerate employees of Spherics for future services. The amount recognised to date of £5m is included in selling and administrative expenses, in the consolidated income statement, as other M&A activity-related items. The total cost of these arrangements will be recognised in future periods over the retention period, contingent on employment.

The consolidated income statement reported by Spherics for the period since the acquisition date, includes an immaterial amount of revenue and loss after tax.

On an underlying and statutory basis, the impact on revenue and profit after tax would have been immaterial, if Spherics had been acquired at the start of the financial year and included in the Group's results for the year ended 30 September 2023.

Measurement adjustments to business combinations reported using provisional amounts—Lockstep

On 30 August 2022, the Group acquired 100% equity capital and voting rights of Lockstep Network Holdings Inc ("Lockstep") for total cash consideration of £80m, of which £3m was deferred and paid in the current year.

The acquired net assets as recognised in the financial statements at 30 September 2022 were based on a provisional assessment of their fair value while the Group undertook a valuation of the acquired intangible assets. During the year, the purchase price accounting has been approved and completed.

16 Acquisitions and disposals continued

16.1 Acquisitions continued

The intangible assets identified and subsequently valued as at the date of acquisition include:

Acquired intangible assets	**Valuation £m**	Useful economic life (years)
Customer relationships	**3**	8
Technology	**23**	8
Acquired intangible assets	**26**	

The comparative information for the financial year 2022 has been restated to reflect the adjustment to the provisional amounts.

As a result of the recognition of intangible assets of £26m, and net deferred tax liability of £1m, there was a corresponding decrease of £25m to goodwill. The remaining balancing £54m goodwill comprises the fair value of the acquired control premium, workforce in place and the expected synergies. The goodwill has been allocated to the Group's North America CGU where the underlying benefit arising from the acquisition is expected to be realised. No goodwill is expected to be deductible for tax purposes. The results of the business are allocated to the North America operating segment in line with the underlying operations.

No other adjustments have been made to the provisional fair value of assets and liabilities reported at 30 September 2022, as set out below:

Fair value of identifiable net assets acquired	Previously reported provisional fair values £m	Measurement adjustments £m	Final fair values £m
Intangible assets	–	26	26
Deferred tax liability	–	(1)	(1)
Other identifiable net assets	1	–	1
Fair value of identifiable net assets acquired	**1**	**25**	**26**
Goodwill	79	(25)	54
Total consideration	**80**	**–**	**80**

The increased amortisation charge on the intangible assets from the acquisition date to 30 September 2022 was not material and therefore no adjustment has been made for this. No changes have been identified to the directly attributable acquisition related costs which were included during the financial year ended 30 September 2022 in relation to the acquisition.

16.2 Disposals and discontinued operations

Discontinued operations and assets and liabilities held for sale

There are no assets or liabilities held for sale at 30 September 2023 (30 September 2022: none).

The Group had no discontinued operations during the year (30 September 2022: none).

17 Related party transactions

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

The Group's related parties are its subsidiary undertakings and its key management personnel, which comprises the Group's Executive Leadership Team members and the Non-executive Directors. Transactions and outstanding balances between the parent and its subsidiaries within the Group and between those subsidiaries have been eliminated on consolidation and are not disclosed in this note. Compensation paid to the Executive Leadership Team is disclosed in note 3.3.

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

18 Events after the balance sheet date

On 21 November 2023, The Sage Group plc approved a share buyback programme of its ordinary shares of up to £350m, which is expected to commence on 22 November 2023 and end no later than 23 April 2024.

19 Group undertakings

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

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

The entities listed below and on the following pages are subsidiaries of the Company or the Group. The Group percentage of equity capital and voting rights is 100% for all subsidiaries listed below unless indicated otherwise. The results for all of the subsidiaries have been consolidated within these financial statements.

Country	Name	Registered address
Australia	Brightpearl Pty Limited	Suite 60 Level 2, 2 O'Connell Street, Parramatta NSW 2150, Australia
Australia	HAMY (Australia) Pty Limited	C/o—Fincorp Accountants, Suite 7, 2–4 Northumberland Road, Caringbah NSW 2229, Australia
Australia	Ocrex Australia Pty. Limited	Level 17, 100 Barangaroo Avenue, Barangaroo NSW 2000, Australia
Australia	Sage Business Solutions Pty Ltd	Level 17, 100 Barangaroo Avenue, Barangaroo NSW 2000, Australia
Australia	Sage Intacct Australia Pty Limited	Level 17, 100 Barangaroo Avenue, Barangaroo NSW 2000, Australia
Australia	Snowdrop Systems Pty Ltd	Level 17, 100 Barangaroo Avenue, Barangaroo NSW 2000, Australia
Austria	Sage GmbH	Stella-Klein-Löw-Weg 15, AT-1020, Wien, Austria
Bahamas	Intelligent Apps Holdings Ltd	Bayside Executive Park, Building No. 2, West Bay Street & Blake Road, P.O Box N-3910, Nassau, The Bahamas
Belgium	Sage S.A.	Buro & Design Center, Esplanade 1, 1020 Brussels, Belgium
Botswana	Sage Software Botswana (Pty) Ltd	Plot 50371, Fairground Office Park, Gaborone, Botswana
Canada	Sage Software Canada Ltd	111, 5th Avenue SW, Suite 3100-C, Calgary AB T2P 5L3, Canada
France	Inventory Planner SAS[5]	10 Place de Belgique, 92250, La Garenne-Colombes, Paris, France
France	Sage Holding France SAS	10 Place de Belgique, 92250, La Garenne-Colombes, Paris, France
France	Sage Overseas Limited (Branch Registration)	10 Place de Belgique, 92250, La Garenne-Colombes, Paris, France
France	Sage SAS	10 Place de Belgique, 92250, La Garenne-Colombes, Paris, France
Germany	Best Software (Germany) GmbH	Franklinstraße 61–63, 60486, Frankfurt am Main, Germany
Germany	eWare GmbH[5]	Untere Weidenstr. 5, c/o Raè Becker & Koll., 81543, München, Germany
Germany	Sage bäurer GmbH	Josefstraße 10, 78166, Donaueschingen, Germany
Germany	Sage CRM Solutions GmbH	Franklinstraße 61–63 60486, Frankfurt am Main, Germany
Germany	Sage GmbH	Franklinstraße 61–63 60486, Frankfurt am Main, Germany
Germany	Sage Management & Services GmbH	Franklinstraße 61–63 60486, Frankfurt am Main, Germany
Germany	Sage Services GmbH	Karl-Heine-Straße 109–111, 04229, Leipzig, Germany
India	Sage Business Technology (India) Private Limited[3]	The Atrium at Quark City, Zone–D, Second Floor, A-45, Industrial Focal Point, Phase VIII B, Mohali, 160059, India
India	Corecon Technologies India Private Limited[3]	B-M.C.F-97/B, ARYA NAGAR MOHNA ROAD,, BALLABGARH, FARIDABAD, Haryana, 121004, India
India	Intacct Software Private Limited[1,3]	No 501 & 502, Tower C, 5th Floor, The Millenia, No. 1 & 2, Murphy Road, Bangalore, Karnataka, 560 008, India
India	Lockstep Network India Pvt. Ltd.[3]	1st and 2nd Flr Sky Loft, Creaticity Mall Opp Golf Course, Shastrinagar Yerwada, Pune, 411006, India
India	Sage Software India Pvt Ltd[3]	N-34, Lower Ground Floor, Kalkaji, New Delhi, 110 019, India
India	VV Finly Technology Pvt. Ltd.[3]	#S-204, Wilson Court Apts, 6th Cross, 2nd Main, Wilson Garden, Bangalore, 560027, India

19 Group undertakings continued

Country	Name	Registered address
Ireland	Ocrex Limited	Number One, Central Park, Leopardstown, Dublin 18, 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[4]	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[4]	Deloitte House, 29 Earlsfort Terrace, Dublin, Dublin 2, D02 AY28
Ireland	Tonwomp Unlimited Company	Deloitte House, 29 Earlsfort Terrace, Dublin, Dublin 2, D02 AY28
Israel	Budgeta Technologies Ltd[5]	32 HaBarzel St., Tel Aviv, 6971046, Israel
Kenya	Sage Software East Africa Limited	114 & 115, 1st Floor, Nivina Towers, LR NO. 1870/IX/96, Westlands Road, Nairobi, Kenya
Latvia	CakeHR SIA	Brivibas iela 40-27, Riga, LV-1050, Latvia
Malaysia	Sage Malaysia Business Solutions Sdn. Bhd.	Level 11, 1 Sentral, Jalan Rakyat, Kuala Lumpur Sentral, 50470 Kuala Lumpur, Malaysia
Morocco	Sage Software SARL[1]	Tour Crystal 1, Niveau 9, Bd Sidi Mohamed Ben Abdellah, Casablanca, 20030, Morocco
Namibia	Sage Software Namibia (Pty) Ltd	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 Software Poland sp. z o.o.[5]	ul. Towarowa 28, 00-839, 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[5]	Bulevardul 21 Decembrie 1989, Nr. 77, camera C.1.2, clădirea C-D, The Office, Etaj 1, Cluj-Napoca, Judet Cluj, Romania
Singapore	Sage Singapore Pte. Ltd.	7 Straits View # 12-00, Marina One East Tower, Singapore, 018936, Singapore
South Africa	Sage Alchemex (Pty) Ltd	23A Flanders Drive, Mount Edgecombe, Durban, 4321, South Africa
South Africa	Sage South Africa (Pty) Ltd*	Floor 6 Gateway West, 22 Magwa Crescent, Waterfall 5-1R, Midrand, Gauteng, 2066, South Africa
Spain	Sage Spain Holdco, S.L.U.	Moraleja Building One—Planta 1, Parque Empresarial de La Moraleja, Avenida de Europa no19, 28108 Alcobendas, Madrid, Spain
Spain	Sage Spain, S.L.[1]	Moraleja Building One—Planta 1, Parque Empresarial de La Moraleja, Avenida de Europa no19, 28108 Alcobendas, Madrid, Spain
Switzerland	Sage Bäurer AG	c/o Legalis Consulting GmbH, Suurstoffi 29, 6343, Rotkreuz, Switzerland
United Arab Emirates	Sage Software Middle East FZ-LLC	Premises: 116–120, Floor: 01, Building: 11, Dubai, United Arab Emirates
United Kingdom	ACCPAC UK Limited	3 Field Court, Gray's Inn, London, WC1R 5EF, United Kingdom
United Kingdom	Brightpearl Limited	C23 – 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	FUTRLI LTD[2]	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	GoProposal Ltd[5]	3 Field Court, Gray's Inn, London, WC1R 5EF, United Kingdom
United Kingdom	HR Bakery Ltd	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Interact UK Holdings Limited*	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Ocrex UK Ltd[6]	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom

Country	Name	Registered address
United Kingdom	Protx Group Limited	3 Field Court, Gray's Inn, London, WC1R 5EF, United Kingdom
United Kingdom	Sage (UK) Ltd	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Euro Hedgeco 1	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Euro Hedgeco 2	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Far East Investments Limited	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Global Services Limited	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Hibernia Investments No. 1 Limited	3 Field Court, Gray's Inn, London, WC1R 5EF, United Kingdom
United Kingdom	Sage Hibernia Investments No. 2 Limited	3 Field Court, Gray's Inn, London, WC1R 5EF, United Kingdom
United Kingdom	Sage Holding Company Limited*	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Holdings Limited	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Irish Investments LLP[2]	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Irish Investments One Limited*	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Irish Investments Two Limited*[2]	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Online Holdings Limited	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Overseas Limited.	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage People Limited	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Treasury Company Limited*	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage US LLP	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage USD Hedgeco 1	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage USD Hedgeco 2	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Whitley Limited	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sagesoft	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Snowdrop Systems Limited	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Spherics Technology Ltd[3]	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United States	Brightpearl, Inc.	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States
United States	Corecon Technologies, Inc.	5912 Bolsa Avenue Suite 109, Huntington Beach, CA 92649
United States	Ocrex, Inc.	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States
United States	Sage Budgeta, Inc.	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States
United States	Sage Global Services US, Inc.	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States

19 Group undertakings continued

Country	Name	Registered address
United States	Sage Intacct, Inc.	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States
United States	Sage People, Inc.	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States
United States	Sage Software Holdings, Inc.	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States
United States	Sage Software International, Inc.	C/o Corporation Service Company, 100 Shockoe Slip, 2nd Floor, Richmond VA 23219, United States
United States	Sage Software North America	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States
United States	Sage Software, Inc.	C/o Corporation Service Company, 100 Shockoe Slip, 2nd Floor, Richmond VA 23219, United States
United States	Sage Tempus, Inc.	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States
United States	Softline Holdings USA, Inc.	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States
United States	Softline Software USA, LLC	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States
United States	Softline Software, Inc.	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States
United States	South Acquisition Corp.	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States

Notes:

* Direct subsidiary.

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

2 Accounting date is 30 March 2023.

3 Accounting date is 31 March 2023.

4 Accounting date is 30 December 2023.

5 Accounting date is 31 December 2023.

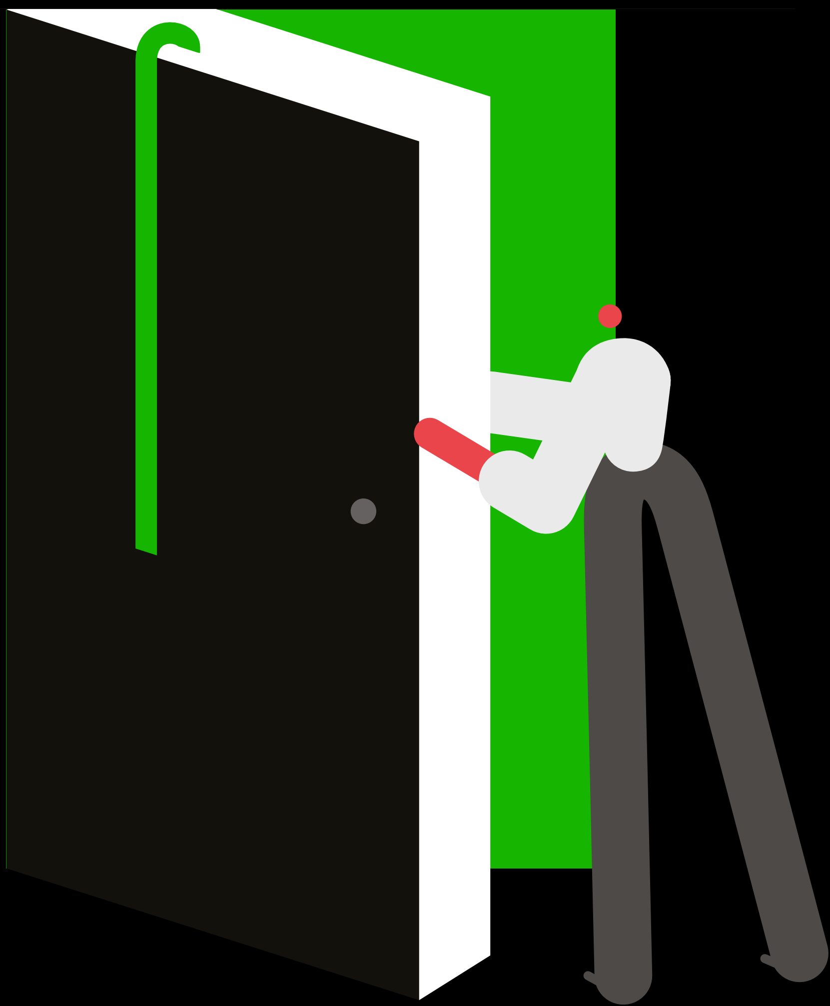
6 Accounting date is 30 June 2023.

Company financial statements

	Pages
Company balance sheet	262
Company statement of changes in equity	263
Company accounting policies	264

Notes to the Company financial statements

1.	Dividends	266
2.	Fixed assets: investments	266
3.	Cash at bank and in hand	266
4.	Debtors	267
5.	Trade and other payables	267
6.	Borrowings	267
7.	Obligations under operating leases	267
8.	Equity	268



Company balance sheet
At 30 September 2023

	Note	2023 £m	2022 £m
Non-current assets			
Investments	2	**3,088**	3,088
Debtors	4	**433**	
Deferred tax assets		**3**	1
		3,524	3,089
Current assets			
Cash at bank and in hand	3	**1**	–
Debtors	4	**1,726**	1,774
		1,727	1,774
Creditors: amounts falling due within one year			
Trade and other payables	5	**(31)**	(16)
Net current assets		**1,696**	1,758
Total assets less current liabilities		**5,220**	4,847
Creditors: amounts falling due after one year			
Borrowings	6	**(1,173)**	(741)
Net assets		**4,047**	4,106
Capital and reserves			
Called up share capital	8.1	**12**	12
Share premium account		**548**	548
Other reserves	8.2	**(452)**	(502)
Profit and loss account		**3,939**	4,048
Total shareholders' funds		**4,047**	4,106

The Company's profit for the year was £71m (2022: £20m).

The financial statements on pages 262 to 268 were approved by the Board of Directors on 21 November 2023 and are signed on its behalf by:

J.A. C Howell.

Jonathan Howell
Chief Financial Officer

Company's registered number 02231246

Company statement of changes in equity

	Attributable to owners of the parent				
	Called up share capital £m	**Share premium £m**	**Other reserves £m**	**Profit and loss account £m**	**Total equity £m**
At 1 October 2022	**12**	**548**	**(502)**	**4,048**	**4,106**
Profit for the year	**–**	**–**	**–**	**71**	**71**
Total comprehensive income for the year ended 30 September 2023	**–**	**–**	**–**	**71**	**71**
Transactions with owners:					
Employee share option scheme—value of employee services	**–**	**–**	**–**	**50**	**50**
Utilisation of treasury shares	**–**	**–**	**51**	**(51)**	**–**
Proceeds from issuance of treasury shares	**–**	**–**	**–**	**11**	**11**
Purchase of shares by Employee Benefit Trust	**–**	**–**	**(1)**	**–**	**(1)**
Dividends paid to owners of the parent	**–**	**–**	**–**	**(190)**	**(190)**
Total transactions with owners for the year ended 30 September 2023	**–**	**–**	**50**	**(180)**	**(130)**
At 30 September 2023	**12**	**548**	**(452)**	**3,939**	**4,047**

	Attributable to owners of the parent				
	Called up share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m	Total equity £m
At 1 October 2021	12	548	(424)	4,122	4,258
Profit for the year	–	–	–	20	20
Total comprehensive income for the year ended 30 September 2022	–	–	–	20	20
Transactions with owners:					
Employee share option scheme—value of employee services	–	–	–	36	36
Utilisation of treasury shares	–	–	41	(41)	–
Proceeds from issuance of treasury shares	–	–	–	7	7
Cancellation of treasury shares	–	–	128	(128)	–
Share buyback programme	–	–	(215)	215	–
Purchase of shares by Employee Benefit Trust	–	–	(32)	–	(32)
Dividends paid to owners of the parent	–	–	–	(183)	(183)
Total transactions with owners for the year ended 30 September 2022	–	–	(78)	(94)	(172)
At 30 September 2022	12	548	(502)	4,048	4,106

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. The going concern basis is set out in Note 1 of the Group consolidated finance statements. 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 Sage Group plc. (a public company limited by share) is a UK registered company with both a functional and presentational currency of sterling. 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)	2023 number	2022 number
By segment:		
UK & Ireland	**14**	14

Staff costs (including Directors on service contracts)	2023 £m	2022 £m
Wages and salaries	**5**	4
Social security costs	**1**	1
	6	5

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 £46,000 (2022: £42,000).

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 129 to 163.

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

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

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

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

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

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

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

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

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

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

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

Employee Benefit Trust
The Company's Employee Benefit Trust is considered an extension of the Company and therefore forms part of these financial statements.

Notes to the Company financial statements

1 Dividends

	2023 £m	2022 £m
Final dividend paid for the year ended 30 September 2022 of 12.10p per share	**123**	–
(2022: final dividend paid for the year ended 30 September 2021 of 11.63p per share)	**–**	119
Interim dividend paid for the year ended 30 September 2023 of 6.55p per share	**67**	–
(2022: interim dividend paid for the year ended 30 September 2022 of 6.30p per share)	**–**	64
	190	183

In addition, the Directors are proposing a final dividend in respect of the financial year ended 30 September 2023 of 12.75p per share, which will absorb an estimated £131m of shareholders' funds. The Company's distributable reserves are sufficient to support the payment of this dividend. If approved at the AGM, it will be paid on 9 February 2024 to shareholders who are on the register of members on 12 January 2024. These financial statements do not reflect this proposed dividend payable.

2 Fixed assets: investments

Equity interests in subsidiary undertakings are as follows:

	2023 £m	2022 £m
Cost	**3,224**	3,224
Provision for diminution in value	**(136)**	(136)
Net book value	**3,088**	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 2023, are shown in note 19 of the Group financial statements. All of these subsidiary undertakings are wholly-owned, unless otherwise indicated in note 19 of the Group financial statements. 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, unless otherwise indicated in note 19 of the Group financial statements.

3 Cash at bank and in hand

	2023 £m	2022 £m
Cash at bank and in hand	**1**	–

4 Debtors

	2023 £m	2022 £m
Prepayments and accrued income	–	1
Amounts owed by Group undertakings	2,159	1,773
	2,159	1,774

Of amounts owed by Group undertakings £433m (2022: £nil) is due greater than one year. Amounts owed by group undertakings are unsecured and attract a rate of interest of 0.0% and SONIA plus 1.6% (2022: 0.0% and SONIA plus 1.6%).

5 Trade and other payables

	2023 £m	2022 £m
Accruals	31	16
	31	16

6 Borrowings

	2023 £m	2022 £m
Sterling denominated bond notes	742	741
Euro denominated bond notes	431	–
	1,173	741

In the current year, bond notes were issued in February 2023 for a nominal amount of EUR 500m and expire in February 2028. Net cash proceeds from the issuance were EUR 498m (£442m). For further information, see note 13.4 of the Group consolidated financial statements.

In the prior year, bond notes were issued in February 2022 for a nominal amount of £400m and expire in February 2034. Net cash proceeds from the issuance were £396m.

7 Obligations under operating leases

	2023	2022
Total future minimum lease payments under non-cancellable operating leases falling due for payment as follows:	Property, vehicles, plant and equipment £m	Property, vehicles, plant and equipment £m
Within one year	3	3
Later than one year and less than five years	12	13
After five years	11	14
	26	30

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

8 Equity

8.1 Called up share capital

Issued and fully paid ordinary shares of 1⁴⁄₇₇ pence each	2023 shares	2023 £m	2022 shares	2022 £m
At 1 October	**1,100,789,295**	**12**	1,120,789,295	12
Cancellation of treasury shares	**–**	**–**	(20,000,000)	–
At 30 September	**1,100,789,295**	**12**	1,100,789,295	12

See note 15.1 of the Group consolidate financial statements.

8.2 Other reserves

	Treasury shares £m	Merger reserve £m	Capital redemption reserve £m	Total other reserves £m
At 1 October 2022	**(565)**	**61**	**2**	**(502)**
Utilisation of treasury shares	**51**	**–**	**–**	**51**
Purchase of shares by Employee Benefit Trust	**(1)**	**–**	**–**	**(1)**
At 30 September 2023	**(515)**	**61**	**2**	**(452)**

	Treasury shares £m	Merger reserve £m	Capital redemption reserve £m	Total other reserves £m
At 1 October 2021	(487)	61	2	(424)
Utilisation of treasury shares	41	–	–	41
Cancellation of treasury shares	128	–	–	128
Share Buyback Programme	(215)	–	–	(215)
Purchase of shares by Employee Benefit Trust	(32)	–	–	(32)
At 30 September 2022	(565)	61	2	(502)

Treasury shares

Purchase of treasury shares

At 30 September 2023, the Group held 73,906,470 (2022: 81,168,903) treasury shares.

During the year, the Group agreed to satisfy the vesting of certain share awards, utilising a total of 7,262,433 (2022: 6,396,278) treasury shares.

During the prior year, the Group cancelled 20,000,000 treasury shares, which reduced the number of Ordinary shares to 1,100,789,295 at 30 September 2022. See note 15.1.

Shares purchased under the Group's buyback programme are either cancelled or are retained in treasury and reissued in the future. Where the shares are retained as treasury shares, they represent a deduction from equity attributable to owners of the parent.

In the prior year, the Group purchased a total of 27,979,129 Ordinary shares, initially held as treasury shares, as part of a non-discretionary share buyback programme entered into on 6 September 2021 and completed on 24 January 2022. Consideration of £249m for this share buyback programme was paid in the prior year.

Employee Benefit Trust

The Employee Benefit Trust ("EBT") holds shares in the Company and was set up for the benefit of Group employees. The EBT 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. Once purchased, shares are not sold back into the market. The EBT holds 4,419,478 ordinary shares in the Company (2022: 4,610,875) at a cost of £34m (2022: £33m) with £1m of shares purchased during the year (2022: £32m), funded by the Company, and a nominal value of £nil (2022: £nil).

During the year, the EBT utilised 258,505 shares it held to satisfy the vesting of certain share awards (2022: nil). The EBT did not receive additional funds for future purchase of shares in the market (2022: £nil).

The costs of funding and administering the EBT are charged to the profit and loss account of the Company in the period to which they relate. The market value of the shares of the Company held by the EBT at 30 September 2023 was £44m (2022: £32m).

Glossary

Alternative Performance Measures

Alternative Performance Measures are used by the Group to understand and manage performance. These are not defined under International Financial Reporting Standards (IFRS) or UK-adopted International Accounting Standards (UK-IFRS) and are not intended to be a substitute for any IFRS or UK-IFRS measures of performance but have been included as management considers them to be important measures, alongside the comparable GAAP financial measures, in assessing underlying performance. Wherever appropriate and practical, we provide reconciliations to relevant GAAP measures. The table below sets out the basis of calculation of the Alternative Performance Measures and the rationale for their use.

Measure	Description	Rationale
Underlying (revenue and profit) measures	Underlying measures are adjusted to exclude items which in management's judgement need to be disclosed separately by virtue of their size, nature or frequency to aid 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, and unhedged FX on intercompany balances; 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. Recurring items are adjusted each period irrespective of materiality to ensure consistent treatment. Underlying basic EPS is also adjusted for the tax impact of recurring and non-recurring items. 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 effects of foreign exchange movements or recurring or non-recurring 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; and • Adjust the comparative period to present prior period acquired businesses as if they had been part of the Group throughout the prior period. Acquisitions and disposals where the revenue and contribution impact would be immaterial are not adjusted.	Organic measures allow management and investors to understand the like-for-like revenue and current period margin performance of the continuing business.
Underlying Cash Flow from Operations	Underlying Cash Flow from Operations is Underlying Operating Profit adjusted for non-cash items, net capital expenditure (excluding business combinations and similar items) and changes in working capital.	To show the cash flow generated by the operations and calculate underlying cash conversion.

Glossary continued

Measure	Description	Rationale
Underlying Cash Conversion	Underlying Cash Flow from Operations divided by Underlying (as reported) 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 underlying depreciation, amortisation and share based payments. Underlying depreciation and amortisation is the statutory equivalent measure, adjusted for the amortisation of acquired intangibles. Underlying share based payments is the statutory equivalent measure, adjusted for M&A-related share based payment charges included within other M&A activity related items.	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 recurring revenue in the last month of the reporting period, adjusted consistently period to period, multiplied by twelve. Adjustments to normalise reported recurring revenue involve excluding certain components (such as non-refundable contract sign up fees) to ensure the measure reflects that part of the revenue base which (subject to ongoing use and renewal) can reasonably be expected to repeat in future periods.	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 Underlying Cash Flow from Operations minus net interest paid, derivative financial instruments and income tax paid, and adjusted for non-recurring cash items (which excludes net proceeds on disposals of subsidiaries) and profit and loss foreign exchange movements.	To measure the cash generated by the operating activities during the period that is available to repay debt, undertake acquisitions or distribute to shareholders.
% Subscription Penetration	Underlying software subscription revenue as a percentage of underlying total revenue.	To measure the progress of migrating our customer base from licence and maintenance to a subscription relationship.
% Sage Business Cloud Penetration	Underlying recurring revenue from the Sage Business Cloud as a percentage of the underlying recurring revenue of the Future Sage Business Cloud Opportunity.	To measure the progress in the migration of our revenue base to the Sage Business Cloud by connecting our solutions to the cloud and/or migrating our customers to cloud connected and cloud native solutions.
Return on Capital Employed (ROCE)	ROCE is calculated as underlying operating profit, minus amortisation of acquired intangibles, the result being divided by capital employed, which is the average (of the opening and closing balance for the period) total net assets excluding net debt, derivative financial instruments, provisions for non-recurring costs, financial liability for purchase of own shares and tax assets or liabilities.	As an indicator of the current period financial return on the capital invested in the company. ROCE is used as an underpin in the FY21, FY22 and FY23 PSP awards.
Net debt	Net debt is cash and cash equivalents less current and non-current borrowings.	To calculate the Net Debt to EBITDA leverage ratio and an indicator of our indebtedness.

AGM
Annual General Meeting

AI
Artificial Intelligence

API
Application Program Interface

CAGR
Compound Annual Growth Rate

CDP
Carbon Disclosure Project

CEO
Chief Executive Officer

CFO
Chief Financial Officer

CGU
Cash Generating Unit

CRM
Customer Relationship Management

DTR
Disclosure Guidance and Transparency Rules

EBITDA
Earnings Before Interest Taxes Depreciation and Amortisation

ED
Executive Director

ELT
Executive Leadership Team

EPS
Earnings Per Share

ERP
Enterprise Resource Planning

EU
European Union

FCF
Free Cash Flow

FY20
Financial year ending 30 September 2020

FY21
Financial year ending 30 September 2021

FY22
Financial year ending 30 September 2022

FY23
Financial year ending 30 September 2023

GHG
Greenhouse Gas

HCM
Human Capital Management

HR
Human Resources

IFRS
International Financial Reporting Standards

ISV
Independent Software Vendor

KPI
Key Performance Indicator

LSE
London Stock Exchange

LTIP
Long Term Incentive Plan

ML
Machine Learning

NED
Non-Executive Director

NPS
Net Promoter Score

PBT
Profit Before Tax

PSP
Performance Share Plan

R&D
Research and Development

SBC
Sage Business Cloud

SaaS
Software as a Service

SSRS
Software & Software Related Services

TSR
Total Shareholder Return

Shareholder Information

Financial calendar[1]

Annual General Meeting	**1 February 2024**
Dividend payments[2]	
FY23 Final payable	9 February 2024
H1 FY24 Interim payable	28 June 2024
Results announcements	
Q1 FY24 Trading update	18 January 2024
H1 FY24 Interim results	16 May 2024
Q3 FY24 Trading update	30 July 2024
FY24 Full-Year results	20 November 2024

Note:
1. Please note that these dates are provisional and subject to change. Please access our financial calendar on sage.com, which is updated regularly.
2. All dividend payments are subject to Board and, in the case of the final dividend, shareholders' approval.

Shareholder information online

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

To take advantage of this service, please go to www.shareview.co.uk, where full details of the shareholder portfolio services are provided. When registering for this service, you will need to have your 11-character Shareholder Reference Number to hand, which is shown on your dividend tax voucher, share certificate or Form of Proxy.

Should you decide at a later date that you do not want to receive these emails, you may amend your request by accessing your Shareview Portfolio online and amending your preferred method of communication from "email" to "post".

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

Stay up to date at www.sage.com

Annual General Meeting of shareholders

We consider the Annual General Meeting of shareholders (AGM) to be an important event in our calendar and a significant opportunity to engage with our shareholders. The 2024 AGM will be held on 1 February 2024. Further details will be set out in the Notice of AGM and on our website at sage.com.

Advisors

Corporate brokers and financial advisors

J.P. Morgan Cazenove
25 Bank Street,
Canary Wharf,
London, E14 5JP

Morgan Stanley & Co.
International plc
25 Cabot Square,
Canary Wharf,
London, E14 4QA

Solicitors

Allen & Overy LLP
One Bishops Square,
London, E1 6AD

Principal bankers

Lloyds Bank plc.
25 Gresham Street,
London, EC2V 7HN

Independent auditors

EY
1 More London Place,
London, SE1 2AF

Registrars

Equiniti
Aspect House,
Spencer Road, Lancing,
West Sussex, BN99 6DA
www.shareview.co.uk

Tel: +44 (0)371 384 2859

Lines are open 8.30 am to 5.30 pm UK time, Monday to Friday (excluding public holidays in England and Wales).

Information for investors

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

Investor enquiries

Enquiries can be directed to our Investor Relations department via our website.

The Sage Group plc.

Registered Office:
C23—5 & 6 Cobalt Park Way
Cobalt Park,
Newcastle Upon Tyne,
United Kingdom,
NE28 9EJ

Registered in England
Company number 02231246