

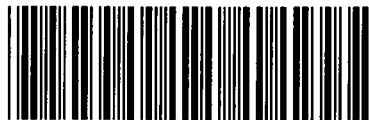
Registration number 1045967

Sage (UK) Ltd

Report and Financial Statements

Year ended 30 September 2018

TUESDAY



L8DQEQQ8

LD2

10/09/2019

#99

COMPANIES HOUSE

Contents

Strategic Report	3
Directors' report	6
Statement of Directors' responsibilities	8
Independent auditor's report to the shareholders of Sage (UK) Ltd	9
Income statement and other comprehensive income	12
Balance Sheet	13
Statement of changes in equity	14
Notes	15

Strategic Report

The directors present their Strategic Report on Sage (UK) Ltd ("the Company") for the year ended 30 September 2018. The directors of The Sage Group plc ("the Group"), The Ultimate Parent Company, set the strategy for the whole group. This is set out within the Group's Annual Report, which does not form part of this report. The business has a clearly defined strategy to respond to the changes taking place in technology and in the markets in which it operates in a way that leverages the strengths of the business model and delivers organic revenue and margin growth.

Fair review of business

The Company achieved a profit on ordinary activities before taxation of £106.1m (2017: £126.5m) on a turnover of £303.7m (2017: £304.5m). The profit for the year, after taxation, amounted to £79.3m (2017: £133.2m). The decline in organic revenue of 0.3% (2017: 7.1% growth) is a result of the Group's strategy to shift to cloud-based subscription revenue.

The information that fulfils the requirements of the fair review of business can be found on pages 6 to 7 of the 2018 financial statements.

Future developments

The external commercial environment is expected to remain competitive during the next financial year. However, the directors remain confident that the current level of performance will be maintained in the future.

Principal risks and uncertainties

During 2018, risk resources around the whole Sage Group were brought together to operate as a Global function overseen and supervised through the Global and Regional Risk Committees. This move seeks to drive greater consistency and to avoid any conflicts of interest between local reporting lines and Global requirements.

The Global Risk Management Framework has been built to identify, evaluate, analyse, manage and mitigate those risks which threaten the successful achievement of our business strategy and objectives, within tolerable appetites. Risks are owned and managed at a Global level and are formally reviewed on a quarterly basis.

Risk is inherent within our business activities, and The Sage Group as a whole continues to prioritise and develop its risk management capability in recognition of this. Timely identification of risks, combined with their appropriate management and escalation, enables the Group to successfully run each business and deliver strategic change, whilst ensuring that the likelihood and/or impact associated with such risks is understood and managed within our defined risk appetite.

Currently there are ten principal risks which are monitored and reported against at a Global level

- Business Model Transition
- Licensing Model Transition
- Market Intelligence
- Competitive Positioning and Product Development
- Sage Brand
- Strategic Partnerships

Strategic report (continued)

Principal risks and uncertainties (continued)

- Third Party Reliance
- Supporting Control Environment
- Information Management and Protection (including cyber)
- Regulatory and Legal Framework

The detail on the background and management and mitigation process can be seen in detail in The Sage Group plc Annual Report and Accounts.

Financial instruments

Financial risk management

The Company's operations expose it to a variety of financial risks that include credit risk and interest rate risk. The Company does not use derivative financial instruments to manage interest rate risk and as such, no hedge accounting is applied.

Credit risk

The Company has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure with any counterparty is subject to a limit.

The treasury function is managed at Global level. The credit risk on liquid funds is considered to be low, as the Audit Committee approved Global Treasury Policy restricts the value that can be invested in each approved counterparty to minimise the risk of loss. All counterparties must meet minimum credit rating requirements.

Interest Rate Risk

The company's exposure to interest rate risk is managed by the Group treasury function at a Global level. The Company holds no external borrowings so is only exposed to interest rate fluctuations on intercompany borrowings, whose rates are set by the treasury function.

Key performance indicators

During the current financial year, The Sage Group plc refined top level Key Performance Indicators ("KPIs") in line with the Group's refreshed strategy. The indicators which are applicable to Sage (UK) Ltd are detailed below.

Adoption of Global Products

We are using global products to attract new customers. Our KPI considers the revenue generating global products and includes the number of paying subscriptions at the end of the year for Sage Business Cloud Accounting and revenue growth for Sage X3.

Sage Business Cloud Accounting paying subscriptions 210,924 (FY17: 197,350)

X3 revenue (decline) / growth (1.7)% (FY17: 47.9%)

Strategic report (continued)

Annualised Software Subscription Base ("ASB")

ASB is the leading indicator for how our move to subscription is progressing. Growth is supported by our latest technology features, which are delivered on subscription. ASB is the amount of organic software subscription revenue in the last month of the period multiplied by twelve.

ASB £184.8m (FY17: £153.9m)

Renewal Rate

If we are successful in delighting customers with technology and service levels, they will respond when it is time to renew their contracts. Calculated as the annualised recurring revenue from renewals, migrations, upsell and cross-sell of active customers at the start of the year divided by the opening annualised recurring revenue for the year.

Renewal Rate 98.5% (FY17: N/A)

Selling and Administrative Expense Ratio ("S&A")

Our selling and administrative expense for the period expressed as a percentage of our total revenue for the period.

S&A 60.0% (FY17: 55.2%)

Signed on behalf of the directors



AMR Parker
Director

Approved by the directors on 9 September 2019

Directors' report

The directors present their report and the financial statements of the Company for the year ended 30 September 2018.

Results and dividends

The profit for the year, after taxation, amounted to £79,340,000 (2017: £133,242,000). No dividends were declared and paid during the year (2017: £100,000,000).

Research and development

The directors regard the investment in research and development as integral to the continuing success of the business and ensuring our products remain a strong player in this sector. Details of total spend in research and development are included within Note 4 to the financial statements.

Directors

The directors who served the Company during the year were as follows:

VL Bradin

M Parry (resigned on 9 March 2018)

E de Greef (appointed on 2 January 2018 and resigned on 29 June 2018)

AMR Parker (appointed on 29 June 2018)

SJ Rolls (appointed on 29 June 2018)

Indemnity Provisions

As at the date of this report, indemnities (which are qualifying third party indemnity provisions under the Companies Act 2006) are in place under which the Company has agreed to indemnify the directors of the Company and the former directors of the Company who held office during the year ended 30 September 2018, to the extent permitted by law and by the Company's articles of association, in respect of all liabilities incurred in connection with the performance of their duties as a director of the Company or its subsidiaries. Copies of these indemnities are available for review at the registered office of the Company.

Disabled employees

The Company continues to give full and fair consideration to applications for employment by disabled persons, having regard to their respective aptitudes and abilities. The Company's policy includes, where applicable, the continued employment of those who may become disabled during their employment.

Employee involvement

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the Company as a whole. Communication with all employees continues through the intranet, briefing groups and the distribution of the annual report. Many employees are stakeholders in the business through participation in share option and Save As You Earn schemes.

Directors' report (*continued*)

Going concern

After making enquiries and taking into account the strong financial performance of the business, the directors have formed a judgement that at the time of approving the financial statements, the Company has adequate resources to continue in existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Auditor

The Audit Committee of The Sage Group plc reviews and makes recommendations with regard to the appointment of the external auditors. In making this recommendation, the Committee considers auditor effectiveness and independence, partner rotation and any other factors which may impact the Committee's judgement regarding the external auditors' reappointment.

The external auditors, Ernst & Young LLP, will be reappointed for the financial year ending 30 September 2019 in accordance with the provisions of Section 383(2) of the Companies Act 2006.

Disclosure of information to auditors

Each of the persons who is a director at the date of approval of this report confirm that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- each director has taken all steps that they ought to have taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Registered office:
Sage (UK) Ltd
North Park
Newcastle upon Tyne
NE13 9AA

Signed on behalf of the directors



AMR Parker
Director

Approved by the directors on 9 September 2019

Statement of Directors' responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable UK law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SAGE (UK) LTD

Opinion

We have audited the financial statements of Sage (UK) Ltd for the year ended 30 September 2018 which comprise the Income Statement and Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 26, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 September 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by 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 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 company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or 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 or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 8, 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 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 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.

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.

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

Andrew Davison (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

Date: *9th September 2019.*

Income statement and other comprehensive income

	Note	2018 £'000	2017 £'000
Revenue	3	303,675	304,535
Cost of sales		(11,203)	(9,495)
Gross profit		292,472	295,040
Selling and administrative expenses		(182,321)	(168,255)
Operating profit	4	110,151	126,785
Finance income	7	-	8
Finance costs	8	(4,055)	(339)
Profit before income tax		106,096	126,454
Income tax expense	9	(26,756)	6,788
Profit for the year		79,340	133,242
Total comprehensive income		79,340	133,242

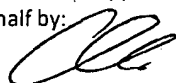
All of the activities of the Company are classified as continuing.

The notes on pages 15 to 40 form part of these financial statements.

Balance Sheet as at 30 September 2018

	Note	2018 £'000	2017 £'000
Non current assets			
Investments	10	53,607	53,607
Goodwill	11	95,479	95,479
Other intangible assets	12	2,249	1,288
Property plant and equipment	13	68,940	72,276
		220,275	222,650
Current assets			
Inventories	15	335	352
Trade and other receivables	16	413,157	285,179
Cash and cash equivalents		7,006	14,117
		420,498	299,648
Total assets		640,773	522,298
Current liabilities			
Trade and other payables	17	(171,235)	(104,792)
Borrowings	18	-	(5,996)
Provisions	19	(379)	(2,686)
Deferred income		(84,251)	(103,077)
		(255,865)	(216,551)
Non current liabilities			
Deferred income tax liabilities	14	(2,299)	(1,862)
Provisions	19	(2,452)	(2,876)
		(4,751)	(4,738)
Total liabilities		(260,616)	(221,289)
Net assets		380,157	301,009
Equity attributable to owners of the parent			
Ordinary shares	20	75,685	75,685
Share premium		1,892	1,892
Equity movement of deferred tax		41	233
Retained earnings		302,539	223,199
Total equity		380,157	301,009

These accounts were approved by the directors and authorised for issue on 9 September 2019, and are signed on their behalf by:



AMR Parker
Director
Company registration number: 1045967

The notes on pages 15 to 40 form part of these financial statements.

Statement of changes in equity

	Ordinary shares £'000	Share premium £'000	Deferred tax £'000	Retained earnings £'000	Total equity £'000
Balance at 1 October 2016	75,685	1,892	233	189,957	267,767
Profit for the year	-	-	-	133,242	133,242
Total comprehensive income for the year ended 30 September 2017	-	-	-	133,242	133,242
Dividends paid	-	-	-	(100,000)	(100,000)
Balance at 30 September 2017	75,685	1,892	233	223,199	301,009
Balance at 1 October 2017	75,685	1,892	233	223,199	301,009
Profit for the year	-	-	-	79,340	79,340
Total comprehensive income for the year ended 30 September 2018	-	-	-	79,340	79,340
Deferred tax reversal	-	-	(192)	-	(192)
Balance at 30 September 2018	75,685	1,892	41	302,539	380,157

The notes on pages 15 to 40 form part of these financial statements.

Notes

1. Accounting policies

Sage (UK) Ltd (the "Company") is a Company incorporated and domiciled in England, it is a private company limited by shares and the Company's registered address is North Park, Newcastle upon Tyne, NE13 9AA.

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and the UK Companies Act 2006.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken. The Company has used a true and fair override of the Companies Act 2006 in respect of the non-amortisation of goodwill and other intangible assets with indefinite useful lives (refer to the accounting policy on goodwill and other intangible assets).

The Company's ultimate parent undertaking, The Sage Group plc, includes the Company in its consolidated financial statements. The consolidated financial statements of The Sage Group plc are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from the address given in note 25.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes, as required by IAS 7 *Statement of cash flows*;
- Disclosures in respect of transactions with wholly owned subsidiaries, as required by IAS 24 *Related party disclosures*;
- Disclosures in respect of capital management, as required by paragraphs 134 to 136 of IAS 1 *Presentation of financial statements*;
- The effects of new but not yet effective IFRSs, as required by paragraphs 30 and 31 of IAS 8 *Accounting policies, changes in accounting estimates and errors*;

Notes (continued)

1. Accounting policies (continued)

- Disclosures in respect of the compensation of Key Management Personnel, as required by paragraph 17 of IAS 24 *Related party disclosures*; and
- Disclosures of transactions with a management entity that provides key management personnel services to the Company, as required by paragraph 17 of IAS 24 *Related party disclosures*.

As the consolidated financial statements of The Sage Group plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share-based Payments in respect of group settled share-based payments, as required by paragraphs 45(b) and 46 to 52; and
- Certain disclosures required by paragraphs 91 to 99 of IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

Basis of preparation

The financial statements have been prepared on the historical cost basis. All amounts are presented in Great British Pounds (GBP).

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The financial statements are prepared on a going concern basis and in accordance with the Companies Act 2006.

The principal accounting policies, which have been applied consistently throughout the year, are set out below.

Foreign currencies

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

Notes (continued)

1. Accounting policies (continued)

Revenue

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

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

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

Notes (continued)

1. Accounting policies (continued)

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

Operating lease commitments

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

Finance income and costs

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.

Income tax expense

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

Current tax payable or receivable is based on the taxable income for the period and any adjustment in respect of prior periods. Current tax is measured at the amount expected to be recovered from or paid to the taxation authorities, calculated using tax rates that have been enacted at the end of the reporting period.

The Company and its fellow group undertakings are able to relieve their tax losses by surrendering them to other group companies, within the UK corporation tax group, where capacity to utilise these losses exists.

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.

Goodwill

The Company acquires subsidiaries and subsequently hives the trade of the subsidiary up into the trade of the Company. The transfers are made at net asset value. Upon transfer there is often a shortfall between the carrying value of the investment in the financial statements of the Company and the net asset value of the subsidiary.

Goodwill represents a reallocation of this shortfall on the investment in the subsidiary from investments to Goodwill in the books of the Company. The total amount carried in both goodwill and investments is in effect the same value as the previous carrying value of the investment in the subsidiary. The goodwill arising is capitalised as an intangible asset.

Registered number 1045967

Notes (continued)

1. Accounting policies (continued)

Goodwill (continued)

The UK Companies Act requires goodwill to be reduced by provisions for depreciation on a systematic basis over a period chosen by the directors, its useful economic life. However, under IFRS 3 Business Combinations goodwill is not amortised. Consequently, the Company does not amortise goodwill, but reviewed it for impairment on an annual basis or whenever there are indicators of impairment. The Company is therefore invoking a 'true and fair view override' to overcome the prohibition on the non-amortisation of goodwill in the Companies Act. The Company is not able to reliably estimate the impact on the financial statements of the true and fair override on the basis that the useful life of goodwill cannot be predicted with a satisfactory level of reliability, nor can the pattern in which goodwill diminishes be known.

Goodwill is allocated to the Company's cash generating units (CGUs) that are expected to have a long-term benefit from synergies of the combination and therefore goodwill is considered to have an indefinite useful life.

Goodwill is tested for impairment annually and when circumstances indicate that it may be impaired. Impairment is determined by assessing the recoverable amount of each CGU to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised.

Goodwill is allocated to CGUs expected to benefit from the synergies of the combination and the allocation represents the lowest level at which goodwill is monitored.

Other intangibles

Intangible assets arising on business combinations are recognised initially at cost, which is their fair value at the date of acquisition. Subsequently they are carried at cost less accumulated amortisation and impairment losses. The main intangible assets recognised are intellectual property rights and computer software.

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

The estimated useful lives are as follows:

Intellectual property rights	Indefinite
Computer software	4 years

Other intangible assets that are acquired by the Company are stated at cost, which is the asset's purchase and any directly attributable costs of preparing the asset for its intended use, less accumulated amortisation and impairment losses if applicable. Software assets are amortised on a straight-line basis over their estimated useful lives.

The UK Companies Act 2006 requires intangibles to be reduced by provisions for depreciation on a systematic basis over a period chosen by the directors, its useful economic life. The Company does not amortise acquired intangibles relating to intellectual property rights given their indefinite life. Instead, they are reviewed for impairment on an annual basis or whenever there are indicators of impairment. The Company is therefore invoking a 'true and fair view override' to overcome the

Notes (continued)

1. Accounting policies (continued)

Other intangibles (continued)

prohibition on the non-amortisation of intangibles in the Companies Act. The Company is not able to reliably estimate the impact on the financial statements of the true and fair override on the basis that the useful life of intellectual property rights cannot be predicted with a satisfactory level of reliability, nor can the pattern in which the intangible asset diminishes be known. The carrying value of intangibles is reviewed for impairment whenever events indicate that the carrying value may not be recoverable.

Property, plant and equipment

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

Freehold buildings	50 years
Plant and machinery	3 to 4 years
Motor vehicles	3 years
Fixtures and fittings	7 years

Freehold land is not depreciated.

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

Inventories

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

Cost includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Cost is calculated using the first-in-first-out method. During the year there were no stock write offs of to cost of sales (2017: £997,000).

Trade and other receivables

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

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

Trade and other payables

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

Notes (continued)

1. Accounting policies (continued)

Provisions

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

- The Company 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 Company would rationally pay to settle the obligation at the balance sheet date or to transfer it to a third party.

Post-employment benefits

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

Deferred income tax

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 and carried forward tax credits or tax losses 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 Company 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 on an undiscounted basis 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.

The carrying amount of deferred income tax asset is reviewed at each balance sheet date. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Company to make a single net payment.

Cash and cash equivalents

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 the Company'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.

Notes (continued)

1. Accounting policies (continued)

Financial instruments

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

Financial assets are derecognised (i.e., removed from the Company's balance sheet) when the rights to receive cash flows from the asset have expired; or when the Company 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.

Equity

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.

Share-based payments

The Sage Group plc ("the Group") issues equity-settled share-based payments to certain employees. 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 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 with the ability to purchase the Group's ordinary shares at a discount to the current market value at the date of the grant. 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.

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.

Dividends

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

Research and development

Research and development expenditures are written off in the year in which they are incurred.

Notes (continued)

2. Accounting estimates and judgements

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amount of the assets and liabilities within the next year.

Revenue recognition

Some of the Company's revenue is generated from sales to partners rather than to end users. The key judgement in accounting for the three principal ways in which our business partners are remunerated is determining whether the business partner is a customer of the Company in respect of the initial product sale. The key criteria in this determination is whether the business partner has paid for and taken on the risks and rewards of ownership of the software product from Sage. At this point the business partner is able to sell on the licence to the end user at a price of its determination and consequently bears the credit risk of the onward sale.

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

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

An additional area of judgement is the recognition and deferral of revenue on bundled products, for example the sale of a perpetual licence with an annual maintenance and support contract. When products are bundled together for the purpose of sale, the associated revenue, net of all applicable discounts, is allocated between the constituent parts of the bundle on a relative fair value basis. The Company has a systematic basis for allocating relative fair values in these situations, based upon published list prices.

Notes (continued)

2. Accounting estimates and judgements (continued)

Goodwill impairment

There are two key judgement areas in relation to goodwill impairment.

The first is the ongoing appropriateness of the cash-generating units ("CGUs") for the purpose of impairment testing. In the current year CGUs were assessed in the context of the Group's evolving business model, the Sage strategy and the shift to global product development. As management continues to monitor goodwill at a country level and product cash flows are still predominantly generated by the existing product base within each country, it was determined that the existing CGUs remain appropriate.

The other key judgement area relates to the assumptions applied in calculating the value in use of the CGUs being tested for impairment. The key assumptions applied in the calculation relate to the future performance expectations of the business – average medium-term revenue growth, and long-term growth rate – as well as the discount rate to be applied in the calculation. These key assumptions used in performing the impairment assessment are disclosed in note 11.

Recoverability of investments

Determining whether investments are impaired required an estimate of the value-in-use or assessment of the assets and liabilities in the investment group. Where an estimate of the value-in-use is used, the key assumptions applied in the calculation relate to the future performance expectations of the business – average medium-term revenue growth, long term operating margin and long-term growth rate – as well as the discount rate to be applied in the calculation.

The carrying value of investments at 30 September 2018 was £53,607,000 (2017: £53,607,000) and no impairment loss has been recognised during the year (2017: £nil).

Recoverability of amounts owed by group undertakings

Determining whether amounts owed by group undertakings are recoverable requires a determination of whether the other party is able to repay. This is performed by assessing the assets and liabilities of the other party.

The carrying value of amounts owed by group undertakings at 30 September 2018 was £328,415,000 (2017: £162,776,000) and no impairment loss has been recognised (2017: £nil).

3. Revenue

The revenue and profit before income tax are attributable to the principal activity of the Company. An analysis of turnover is given below:

	2018	2017
	£'000	£'000
United Kingdom	302,876	304,223
Europe	439	259
Rest of the world	360	53
	303,675	304,535

Notes (continued)

4. Operating profit

	2018	2017
	£'000	£'000
Research and development expenditure	26,187	22,458
Depreciation of owned property, plant and equipment	2,917	4,114
Amortisation of intangibles	568	304
Impairment reversal	-	(1,023)
Loss on disposal of property, plant and equipment	288	18
Net loss / (gain) on foreign currency translation	51	(1,157)
Operating lease costs:		
- Plant and equipment	556	137
- Other	1,092	983
Auditor's remuneration - audit of the financial statements	800	461

The Company has taken advantage of the exemption not to disclose amounts paid for non-audit services as these are disclosed in the group accounts of its parent The Sage Group plc.

5. Staff numbers and costs

The average number of staff employed by the Company during the financial year amounted to:

	2018	2017
	No	No
Research and development	432	429
Field sales	553	589
Sales support / customer service	775	753
Training	23	26
Marketing	147	138
Finance	108	93
IT	83	90
Administration	70	104
	2,191	2,222

Notes (continued)

5. Staff numbers and costs (continued)

The aggregate payroll costs of the above were:

	2018	2017
	£'000	£'000
Wages and salaries	85,327	84,066
Social security costs	10,313	9,393
Other pension costs	4,721	4,307
Equity-settled share-based payments	526	(237)
	100,887	97,529

5. Directors' remuneration

The directors' aggregate remuneration in respect of qualifying services were:

Directors remuneration	2018	2017
	£'000	£'000
Remuneration receivable (excluding pension contributions)	32	193
Value of Company pension contributions to defined contribution schemes	3	18
	35	211

Retirement benefits under defined contribution schemes are accruing to two directors of the Company.

During the year 1 director exercised share options (2017: 1). One director received shares in respect of long-term incentive schemes (2017: 1).

6. Post-employment benefits

The majority of the Company's employees are members of defined contribution schemes. The Company 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 of £4,721,000 (2017: £4,307,000) in respect to the current year are included in the income statement.

Notes (continued)

7. Finance income

	2018	2017
	£'000	£'000
Bank interest receivable	-	8
	-	8

8. Finance costs

	2018	2017
	£'000	£'000
Other interest payable	61	3
Bank Fees	511	250
Interest payable to group undertakings	3,483	86
	4,055	339

9. Income tax expense/(credit)

	2018	2017
	£'000	£'000
Current tax expense		
- Current year	17,385	11,320
- Adjustment in respect of prior periods	8,934	(17,702)
Deferred tax credit		
- Origination and reversal of temporary differences	374	(268)
- Adjustment in respect of prior periods	63	(138)
Total income tax expense/(credit) recognised	26,756	(6,788)

Notes (continued)

9. Income tax expense/(credit) (continued)

Reconciliation of effective tax rate

The tax charge for the year is higher (2017: lower) than the standard rate of corporation tax in the UK of 19.0% (2017: 19.5%). The differences are explained below:

	2018	2017
	£'000	£'000
Profit for the year before tax	106,096	126,454
Tax calculated at UK standard rate of corporation tax of 19.0% (2017: 19.5%)	20,158	24,659
Adjustments in respect of prior period	8,997	(17,666)
Deferred tax adjustment in respect of prior period	-	(138)
Non taxable income	(438)	-
Expenses not deductible for tax purposes	228	206
Impact of change in tax laws and rates	(44)	(60)
Patent box adjustment	(2,034)	(1,794)
Group relief utilised not paid	(111)	(11,995)
Total income tax expense/(credit) recognised	26,756	(6,788)

Further reductions in the main corporation tax rate to 17% from 1 April 2020 were substantively enacted before the end of the accounting period.

Notes (continued)

10. Investments

	£'000
Cost	
At 1 October 2017 and 30 September 2018	65,207
Provision for diminution in value	
At 1 October 2017	11,600
Investment impairment	-
At 30 September 2018	11,600
Net book value	
At 30 September 2018	53,607

	£'000
Cost	
At 1 October 2016 and 30 September 2017	65,207
At 30 September 2016	65,207
Provision for diminution in value	
At 1 October 2016	11,600
Investment impairment	-
At 30 September 2017	11,600
Net book value	
At 30 September 2017	53,607

Investments represent shares in subsidiary undertakings.

Notes (continued)

10. Investments (continued)

The following table lists the Company's subsidiaries. All subsidiaries are held through an intermediate Company, except for the first 13 companies in the table.

	Country of incorporation	Class of shares held	Ownership		
			Direct/Indirect	2018	2017
Sage Software Ltd ¹	UK	Ordinary	Direct	100%	100%
TAS Software Limited ¹	UK	Ordinary	Direct	100%	100%
Multisoft Financial Systems Limited ¹	UK	Ordinary	Direct	100%	100%
Sage Payments (UK) Ltd ¹	UK	Ordinary	Direct	100%	100%
Accpac UK Limited ¹	UK	Ordinary	Direct	100%	100%
Sage Hibernia Investments No. 1 Limited ¹	UK	Ordinary	Direct	100%	100%
Sage Hibernia Investments No. 2 Limited ¹	UK	Ordinary	Direct	100%	100%
Protx Group Limited ¹	UK	Ordinary	Direct	100%	100%
KCS Global Holdings Limited ¹	UK	Ordinary	Direct	100%	100%
Snowdrop Systems Ltd ¹	UK	Ordinary	Direct	100%	100%
Sage CRM Solutions Limited ³	UK	Ordinary	Direct	100%	100%
IntelligentApps Holdings Ltd ⁴	Bahamas	Ordinary	Direct	100%	100%
Snowdrop Systems Pty Limited ⁵	Australia	Ordinary	Indirect	100%	100%
Protx Limited ¹	UK	Ordinary	Indirect	100%	100%
Tonwomp Unilimited Company ²	Ireland	Ordinary	Indirect	100%	100%
Sage Hibernia Services Limited ²	Ireland	Ordinary	Indirect	100%	100%
TAS Software Ltd ²	Ireland	Ordinary	Indirect	100%	100%
Sage Hibernia Ltd ²	Ireland	Ordinary	Indirect	100%	100%
Sage Technologies Ltd ²	Ireland	Ordinary	Indirect	100%	100%
Computer Resources (Research) Ltd ²	Ireland	Ordinary	Indirect	100%	100%
Apex Software International Ltd ²	Ireland	Ordinary	Indirect	100%	100%
Apex Software Systems Ltd ²	Ireland	Ordinary	Indirect	100%	100%
Softline Software Holdings Limited ²	Ireland	Ordinary	Indirect	100%	100%
Computer Resources (Software) Ltd ²	Ireland	Ordinary	Indirect	100%	100%
Computer Resources (Supplies) Ltd ²	Ireland	Ordinary	Indirect	100%	100%
Computer Resources Ltd ²	Ireland	Ordinary	Indirect	100%	100%
Softline Software Ltd ²	Ireland	Ordinary	Indirect	100%	100%
eWare GmbH ⁶	Germany	Ordinary	Indirect	100%	100%

Notes (continued)

10. Investments (continued)

- ¹ Subsidiary registered address is North Park, Newcastle upon Tyne, NE13 9AA
- ² Subsidiary registered address is Number One, Central Park, Leopardstown, Dublin 18
- ³ Subsidiary registered address is Sage House, Wharfedale Road Winnersh, Wokingham, Berkshire, RG41 5RD, UK
- ⁴ Subsidiary registered address is Saffrey Square, Suite 205 Bank Lane, Bahamas
- ⁵ Subsidiary registered address is Level 2, 67 Albert Avenue, Chatswood, NSW 2067, Australia
- ⁶ Subsidiary registered address is Behrings Behringstraße 24, 90482 Nürnberg, Germany

11. Goodwill

	£'000
Cost	
At 1 October 2017 and 30 September 2018	95,479
Net book value	
At 30 September 2018	95,479
	£'000
Cost	
At 1 October 2016 and 30 September 2017	95,479
Net book value	
At 30 September 2017	95,479

Goodwill impairment

The cash generating units (CGUs) for the Company have been assessed as the Company. The recoverable amounts of the CGUs are determined as the higher of fair value less cost to sell and the value-in-use. In determining value-in-use, estimated future cash flows are discounted to their present value.

The 2019 budget and the approved Group plan for the three years following the current financial year form the basis for the cash flow projections for a CGU. Beyond the three year plan these projections are extrapolated using an estimated long-term growth rate. The key assumptions in value in the value-in-use calculations are the average medium-term revenue growth rate (4.5%) (2017: 6.8%) and the long-term growth rate of net operating cash flows (2.13%) (2017: 2.1%).

The Company uses a discount rate based on the Weighted Average Cost of Capital (WACC) for each CGU, applying local government yield bonds and tax rates to each CGU. The discount rate applied to a CGU represents a post-tax rate that reflects the market assessment of the time value of money and the risks specific to the CGU. The discount rate applied was 7.92% (2017: 8.62%).

The Company performed its annual impairment test at the end of 2018, the recoverable amount exceeded the carrying value for all CGUs.

Notes (continued)

11. Goodwill (continued)

A sensitivity analysis was also performed, and the directors believe that no reasonably possible change in any of the key assumptions would cause the carrying value of any CGU to exceed its recoverable amount

12. Other intangibles

	Software £'000	Other £'000	Total £'000
Cost			
At 1 October 2017	4,564	397	4,961
Additions	1,481		1,481
At 30 September 2018	6,045	397	6,442
Amortisation			
At 1 October 2017	3,673	-	3,673
Charge for the year	520	-	520
At 30 September 2018	4,193	-	4,193
Net book value			
At 30 September 2018	1,852	397	2,249
At 1 October 2017	891	397	1,288

Other represents intellectual property rights.

The amortisation charge in the year has been charged through selling and administrative expenses.

Notes (continued)

13. Property, plant and equipment

	Freehold property £'000	Plant & machinery £'000	Fixtures & fittings £'000	Total £'000
Cost				
At 1 October 2017	75,488	24,396	15,860	115,744
Additions	606	1,573	109	2,288
Disposals	(2,400)	(1,010)	(204)	(3,614)
At 30 September 2018	73,694	24,959	15,765	114,418
Depreciation				
At 1 October 2017	9,182	20,787	13,499	43,468
Charge for the year	710	1,641	566	2,917
Disposals	(540)	(198)	(169)	(907)
At 30 September 2018	9,352	22,230	13,896	45,478
Net book value				
At 30 September 2018	64,342	2,729	1,869	68,940
At 1 October 2017	66,306	3,609	2,361	72,276

The depreciation charge in the year has been charged through selling and administrative expenses.

Notes (continued)

14. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Other	-	-	2,299	1,862
	-	-	2,299	1,862

The movements in deferred tax assets and liabilities (after the offsetting of balances within the same jurisdiction as permitted by IAS 12, "Income Taxes") during the year are shown below.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Deferred tax assets categorised as "other deferred tax" of £109,000 (2017: £730,000) includes various sundry balances in relation to temporary differences, accounting provisions/ accruals and share based payments.

Movement in deferred tax liabilities during the year

	Fixed assets	Other	Total
	£'000	£'000	£'000
At 1 October 2017	2,592	(730)	1,862
Income statement credit/(debit)	(184)	621	437
At 30 September 2018	2,408	(109)	2,299

Notes (continued)

15. Inventories

	2018	2017
	£'000	£'000
Finished goods	335	352
	335	352

During the year there was no impairment of stock recognised within cost of sales (2017: £997,000).

16. Trade and other receivables

	2018	2017
	£'000	£'000
Current		
Trade receivables	81,413	112,414
Less: provision for impairment of receivables	(5,351)	(4,206)
Trade receivables - net	76,062	108,208
Amounts owed by group undertakings	328,415	162,776
Corporation tax receivable	-	8,785
Other receivables	6,191	3,645
Prepayments and accrued income	2,489	1,764
	413,157	285,179

Amounts owed by group undertakings are unsecured and have no fixed date of repayment. Interest, where appropriate, is charged at a treasury rate advised by The Sage Group plc.

17. Trade and other payables

	2018	2017
	£'000	£'000
Current		
Trade payables	5,367	6,661
Amounts owed to group undertakings	139,542	76,806
Other tax and social security payable	11,685	11,428
Other payables	3,819	3,356
Corporation tax payable	5,904	-
Cash held on behalf of customers	163	163
Accruals	4,755	6,378
	171,235	104,792

Amounts owed to group undertakings are unsecured and have no fixed date of repayment. Interest, where appropriate, is charged at a treasury rate advised by The Sage Group plc.

Notes (continued)

18. Borrowings

	2018 £'000	2017 £'000
Current		
Bank overdrafts	-	5,996

19. Provisions

	Building £'000	Other £'000	Total £'000
At 1 October 2017	3,254	2,308	5,562
- New provision in the year	-	-	-
- Provision utilised in the year	(424)	-	(424)
- Unused amounts reversed		(2,308)	(2,308)
At 30 September 2018	2,830	-	2,830
Current provision	378	-	378
Non-current provision	2,452	-	2,452
At 30 September 2018	2,830	-	2,830

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

Other provisions comprise of tax election claims provided for by the Company which have been settled during the year.

Notes (continued)

20. Equity

	Shares	2018 £'000	Shares	2017 £'000
Issued and fully paid				
Ordinary shares of £1 each	48,685,270	48,685	48,685,270	48,685
Preference shares of £1 each	27,000,000	27,000	27,000,000	27,000
	75,685,270	75,685	75,685,270	75,685

Preference shares rank *pari pasu* and carry the same rights as ordinary share capital.

21. Share-based payments

The Company recognises a share-based payment expense based on the fair value of the awards granted, and an equivalent credit directly in equity as a capital contribution.

On exercise of the shares, the Company is charged the intrinsic value of the shares by The Sage Group plc. This amount is treated as a reduction of the capital contribution and is recognised directly in equity.

The Sage Group Performance Share Plan

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

Awards prior to 2016

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

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

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

The final third of the award is the performance target relating to TSR which measures share price performance against a designated comparator group. Where the Company's TSR is between median

Notes (continued)

21. Share-based payments (continued)

and upper quartile, the TSR vesting percentage will be calculated on a straight-line pro-rata basis between 6.7% and 26.7% and where the Company's TSR is between upper quartile and upper decile, the TSR vesting percentage will be calculated on a straight-line pro-rata basis between 26.7% and 33.3%. The TSR vesting percentage may only exceed 26.7% ("Stretch" level) if performance against either the EPS target or the organic revenue growth target is also at "Stretch" level.

Awards from 2016 onwards

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

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

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

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

Awards were valued using the Monte Carlo option-pricing model. The market-based performance condition 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 Sage Group Restricted Plan

The Group's Restricted Share Plan is a long-term incentive plan used in limited circumstances and usually on a one-off basis, under which contingent share awards are usually made only with service conditions. Executive directors are not permitted to participate in the plan and shares are purchased in the market to satisfy vesting awards. During the year 2,609,526 (2017: 847,491) awards were made.

The Sage Group Savings-related Share Option Plan

The Group operates an approved savings related share option scheme for UK employees. The fair value is expensed over the service period of three, five or seven years on the assumption that 5% of options will lapse over the service period as employees leave the Group. In the year, 1,363,310 (2017: 2,209,518) options were granted under the terms of the Save and Share Plan.

Notes (continued)

21. Share-based payments (continued)

As the consolidated financial statements of The Sage Group plc include the equivalent disclosures, the Company has taken the exemption under FRS 101 available in respect of certain disclosures required by IFRS 2 Share-based Payments.

22. Financial instruments

As the consolidated financial statements of The Sage Group plc include the equivalent disclosures, the Company has taken the exemptions under FRS 101 available in respect of certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures. The disclosures below cover statutory balances in relation to Amounts owed by / to group undertakings that are not covered in The Sage Group plc consolidated financial statements.

Fair value measurement of financial assets and financial liabilities

Amounts owed by group undertakings and amounts owed to group undertakings are initially measured at fair value and are subsequently measured at amortised cost. The directors of the Company consider that the carry amounts of the financial assets and financial liabilities recognised in the financial statements approximate their fair values.

23. Dividends

	2018 £'000	2017 £'000
Paid during the year:		
Equity dividends on ordinary shares	-	100,000

There were no dividends paid in 2018 (2017: £2.05 per share).

Notes (continued)

24. Commitments

Operating leases

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

Future minimum lease payments under non-cancellable operating lease commitments:

	Carrying amount			
	Land and buildings	Other	Land and buildings	Other
	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Less than one year	1,321	254	1,545	62
Between one and five years	4,538	143	6,088	43
More than five years	3,139	-	5,936	-
	8,998	397	13,569	105

25. Immediate and ultimate parent Company

The Company's immediate parent undertaking is Sage Holding Company Limited, a Company registered in England.

The ultimate parent undertaking and ultimate controlling party is The Sage Group plc a Company registered in England. The Sage Group plc is the largest and smallest group to consolidate these financial statements. Copies of the group financial statements can be obtained from the registered office at The Sage Group plc, North Park, Newcastle Great Park, Newcastle upon Tyne, NE13 9AA.

26. Post balance sheet events

On 27 June 2019, the Sage Group entered into an agreement to acquire a leasehold property to replace the freehold property that it currently uses as its headquarters. The Group plans to relocate to the new property by 30 September 2020 and market the existing property for sale. At 30 September 2018, the freehold property is presented in the Company's balance sheet within property, plant and equipment and has a carrying amount of £64,342,000 of which £4,300,000 relates to land. As a result of the relocation, the carrying amount of the freehold property excluding land will be depreciated over its remaining useful life of 15 months from the date of the decision to exit the property as noted above.