Registration number 07492608

Sage Pay Europe Limited

Report and Financial Statements

Year ended 30 September 2018

Contents

Strategic Report

The Directors present their Strategic Report on Sage Pay Europe Limited ("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.

Fair review of business

The Company achieved a profit on ordinary activities before taxation of £22,948,000 *(2017: £16,117,000)* on a turnover of £32,858,000 *(2017: £28,690,000)*.

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

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

Financial risk management

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

Strategic report *(continued)*

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

The directors of The Sage Group plc manage and measure the Group's operations on a regional and segmental basis. For this reason, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company's business. The key performance indicators used by the directors of The Sage Group plc to manage and measure the performance of the Group are discussed within the Group's annual report.

Signed on behalf of the directors

Sarah Rolls

S J Rolls
Director

Approved by the directors on 29 August 2019

Directors' report

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

Principal activities

The principal activity of the Company during the year was the provision of payment processing services, comprising online, card present, mail order and telephone order payment solutions and associated services (including the resale, hire and rental of payment card terminals and similar technologies).

Review of business

The results for the year are set out on page 11. The directors do not recommend payment of a dividend *(2017: £nil)*.

Directors

The names of the persons who were directors at any time during the year ended 30 September 2018 are set out below. Unless indicated otherwise they served as directors for the entire period.

AMR Parker (appointed on 29 June 2018)
SJ Rolls (appointed on 29 June 2018)
VL Bradin
M Parry (resigned 29 June 2018)
EM de Greef (appointed on 2 January 2018 and resigned 29 June 2018)

Indemnity provisions

The ultimate parent company, The Sage Group plc, maintained liability insurance for its directors and officers during the financial year and up to the date of approval of these financial statements. The Sage Group plc has also provided an indemnity for its directors and the company secretary, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006.

Future developments

The external commercial environment is expected to remain competitive during the current financial year. However, the Directors remain confident that the Company will maintain its current level of performance in the future.

Going concern

After making enquiries, the Directors have formed a judgement at the time of approving the financial statements that the Company will have access to adequate resources to continue in existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Directors' report *(continued)*

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 confirms that:

(1) so far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and

(2) the directors have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are 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.

On behalf of the Board

Scott Rolls

S J Rolls
Director

29 August 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 shareholders of Sage Pay Europe Limited

Opinion

We have audited the financial statements of Sage Pay Europe Limited for the year ended 30th 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 20, 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 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 30th 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.

Independent auditor's report to the shareholders of Sage Pay Europe Limited *(continued)*

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.

Independent auditor's report to the shareholders of Sage Pay Europe Limited *(continued)*

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 7, 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: 30 August 2019.

Income statement and other comprehensive income

	Note	2018	2017
		£'000	£'000
Revenue	3	**32,858**	28,690
Cost of sales		**(2,890)**	(340)
Gross profit		**29,968**	28,350
Administrative expenses	4	**(8,636)**	(13,273)
Operating profit		**21,332**	15,077
Finance income	7	**1,714**	1,058
Finance cost	8	**(98)**	(18)
Profit before income tax		**22,948**	16,117
Income tax (expense)/credit	9	**(4,408)**	184
Profit for the year		**18,540**	16,301
Total comprehensive income		**18,540**	16,301

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

The notes on pages 14 to 31 form part of these financial statements.

Balance Sheet

	Note	2018	2017 As restated
		£'000	£'000
Non current assets			
Investments	10	**17,329**	17,329
Goodwill	11	**70,633**	70,633
Other intangible assets	12	**215**	341
Property, plant and equipment	13	**303**	595
		88,480	88,898
Current assets			
Trade and other receivables	15	**116,923**	73,166
Deferred tax asset	14	**306**	321
Cash and cash equivalents		**2,264**	2,425
		119,493	75,912
Total assets		**207,973**	164,810
Current liabilities			
Trade and other payables	16	**(61,798)**	(37,270)
Deferred income		**(473)**	(378)
Total liabilities		**(62,271)**	(37,648)
Net assets		**145,702**	127,162
Equity attributable to owners of the parent			
Ordinary shares	17	**83,393**	83,393
Share premium		**20,876**	20,876
Retained earnings		**41,433**	22,893
Total equity		**145,702**	127,162

These accounts were approved by the directors and authorised for issue on 29 August 2019, and are signed on their behalf by:

S J Rolls
Director
Company registration number: 07492608

The notes on pages 14 to 31 form part of these financial statements.

Statement of changes in equity

	Ordinary shares £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
Balance at 1 October 2016 (as restated)	83,393	20,876	6,592	110,861
Profit for the year	-	-	16,301	16,301
Total comprehensive income for the year ended 30 September 2017	-	-	16,301	16,301
Balance at 30 September 2017 (as restated)	83,393	20,876	22,893	127,162
Balance at 1 October 2017	**83,393**	**20,876**	**22,893**	**127,162**
Profit for the year	**-**	**-**	**18,540**	**18,540**
Total comprehensive income for the year ended 30 September 2018	**-**	**-**	**18,540**	**18,540**
Balance at 30 September 2018	**83,393**	**20,876**	**41,433**	**145,702**

The notes on pages 14 to 31 form part of these financial statements.

Notes

1. Accounting policies

Sage Pay Europe Limited (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 20.

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 of Sage Group plc, 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*;
- 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.
- Certain disclosures required by 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 *Impairment of assets* in respect of the impairment of goodwill and indefinite life intangible assets;

Notes *(Continued)*

1. Accounting policies *(Continued)*

- 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.

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.

All revenue earned within the company relates to payment processing revenue. Processing revenue is earned from customers for the processing of payments. Processing revenue is recognised at the point that the service is rendered in a per transaction basis.

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.

Cost of sales

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

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.

Notes *(Continued)*

1. Accounting policies *(Continued)*

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.

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 reviews 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.

Notes *(Continued)*

1. Accounting policies *(Continued)*

Other intangibles

The only intangible assets recognised are 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:

Computer software	2 to 5 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 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 Company 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;
- 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 Company 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.

Notes *(Continued)*

1. Accounting policies *(Continued)*

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:

Plant and equipment	2 to 7 years
Fixtures and fittings	2 to 7 years

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

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.

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.

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.

Notes *(Continued)*

1. Accounting policies *(Continued)*

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.

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.

Notes *(Continued)*

1. Accounting policies *(Continued)*

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.

Prior year restatement

An adjustment has been made in the financial statements to correctly reflect the allotment shares that occurred in September 2013. The opening Balance sheet and Statement of changes equity as at 1 October 2016 have been restated to correctly reflect share capital issued 8,339,335,361 ordinary shares with nominal value of £0.01 at a premium of £0.0025 per share.

The effect of the restatement is to reduce the value of ordinary shares to £83,393,354 and to increase the value of share premium to £20,876,338 at 01 October 2016. Total equity has remained the same.

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.

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.

Notes *(Continued)*

2. Accounting estimates and judgements *(Continued)*

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 £17,329,000 *(2017: £17,329,000)* and no impairment loss has been recognised *(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 £112,045,000 *(2017: £69,400,000)* 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	**27,108**	23,679
Europe	**4,926**	4,089
Rest of the world	**824**	922
	32,858	28,690

4. Operating profit

Operating profit is stated after charging/(crediting):

	2018	2017
	£'000	£'000
Depreciation of owned property, plant and equipment	**390**	858
Amortisation of intangibles	**126**	137
Loss/(profit) on disposal of property, plant and equipment	**127**	(372)
Net loss on foreign currency translation	**-**	49
Auditor's remuneration - audit of the financial statements	**115**	132

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.

Notes *(Continued)*

4. Operating profit *(Continued)*

The directors did not receive any emoluments during the year in respect of their services to the Company *(2017: Nil)*.

5. Staff numbers and costs

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

	2018	2017
	No	No
Sales	25	23
Service	15	21
Administration	27	35
	67	79

The aggregate payroll costs of the above were:

	2018	2017
	£'000	£'000
Wages and salaries	4,380	6,617
Social security costs	522	635
Other pension costs	271	248
Equity-settled share-based payments	-	(39)
	5,173	7,461

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 in respect of the current period are included in the income statement. Contributions in respect of the current period totalled £271,000 *(2017: £248,158)*.

7. Finance income

	2018	2017
	£'000	£'000
Interest receivable from group undertakings	1,714	1,058
	1,714	1,058

Notes *(Continued)*

8. Finance Cost

	2018 £'000	2017 £'000
Bank Fees	**28**	18
Foreign exchange losses	**70**	-
	98	18

9. Income tax expense / (credit)

	2018 £'000	2017 £'000
Current tax expense		
- Adjustment in respect of prior years	**4,393**	(110)
Deferred tax expense		
- Current year	**(6)**	(58)
- Adjustment in respect of prior years	**21**	(16)
Total income tax expense/(credit) recognised	**4,408**	(184)

Reconciliation of effective tax rate

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

	2018 £'000	2017 £'000
Profit before income tax	**22,948**	16,117
Tax calculated at UK standard rate of corporation tax of 19.0% (2017: 19.5%)	**4,360**	3,143
Expenses not deductible for tax purposes	**27**	18
Adjustment in respect of prior period	**21**	(126)
Impact of change in tax laws and rates	**-**	(13)
Group relief utilised not paid	**-**	(3,206)
Total income tax expense/(credit) recognised	**4,408**	(184)

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 and net book value	
At 1 October 2017 and 30 September 2018	**17,329**

	£'000
Cost and net book value	
At 1 October 2016 and 30 September 2017	17,329

Investments represent shares in subsidiary undertakings.

There were no movements in investments during the year.

The following table lists the Company's subsidiary undertakings. All subsidiaries are held through an intermediate company except for the first 3 companies listed in the table.

	Country of incorporation	Class of shares held	Ownership 2018	Ownership 2017
Sage Pay Ireland Limited [1]	Republic of Ireland	Ordinary	**100%**	100%
Sage Pay GmbH [2]	Germany	Ordinary	**100%**	100%
Sage Pay S.L. [3]	Spain	Ordinary	**100%**	100%
Sage Pay (Dublin) Limited [1]	Republic of Ireland	Ordinary	**100%**	100%
Sage Pay (GB) Limited [4]	England	Ordinary	**100%**	100%

[1] Subsidiary registered address is 1 Central Park, Leopardstown, Dublin18, Republic of Ireland

[2] Subsidiary registered address is Emil-von-Behring- Straße 8-14, 60439 Frankfurt am Main, Germany

[3] Subsidiary registered address is Calle Labastida, 10-12, 28034 Madrid, Spain

[4] Subsidiary registered address is North Park, Newcastle upon Tyne, NE13 9AA

Notes *(Continued)*

11. Goodwill

	£'000
Cost and net book value	
At 1 October 2017 and 30 September 2018	**70,633**

	£'000
Cost and net book value	
At 1 October 2016 and 30 September 2017	70,633

Goodwill impairment

The cash generating units (CGUs) for the Company have been assessed as the Sage Pay subgroup. 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 2018 budget and the approved Group plan for the three years following the prior 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 (7.5%) *(2017: 6.5%)* and the long-term growth rate of net operating cash flows (2.1%) *(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 7.9% *(2017: 8.6%)*.

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

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.

Notes *(Continued)*

12. Other intangibles

	Software £'000
Cost	
At 1 October 2017	**687**
At 30 September 2018	**687**
Amortisation	
At 1 October 2017	**346**
Charge for the year	**126**
At 30 September 2018	**472**
Net book value	
At 30 September 2018	**215**
At 1 October 2017	341

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

Notes *(Continued)*

13. Property, plant and equipment

	Plant & machinery £'000	Fixtures & Fittings £'000	Total £'000
Cost			
At 1 October 2017	4,845	912	5,757
Additions	214	11	225
Disposals	-	(611)	(611)
At 30 September 2018	5,059	312	5,371
Depreciation			
At 1 October 2017	4,471	691	5,162
Charge for the year	353	37	390
Disposals	-	(484)	(484)
At 30 September 2018	4,824	244	5,068
Net book value			
At 30 September 2018	235	68	303
At 1 October 2017	374	221	595

Depreciation expenses have been charged through selling and administrative expenses.

14. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2018 £'000	2017 £'000
Fixed asset temporary differences	306	321

Deferred tax assets have been recognised in respect of fixed assets temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

Notes *(Continued)*

14. Deferred tax assets and liabilities *(Continued)*

Movement in deferred tax assets during the year

	Fixed asset temporary differences £'000	Total £'000
At 1 October 2017	321	321
Income statement debit	(15)	(15)
At 30 September 2018	**306**	**306**

	Fixed asset temporary differences £'000	Total £'000
At 1 October 2016	247	247
Change in tax rate	74	74
At 30 September 2017	**321**	**321**

15. Trade and other receivables

	2018 £'000	2017 £'000
Current		
Trade receivables	3,258	3,131
Less: provision for impairment of receivables	(153)	(147)
Trade receivables - net	3,105	2,984
Amounts owed by group undertakings	112,045	69,400
Other receivables	905	-
Prepayments and accrued income	868	782
	116,923	73,166

Amounts owed by Group undertakings are unsecured, repayable on demand and attract interest rates of between nil% and 2%.

Notes *(Continued)*

16. Trade and other payables

	2018 £'000	2017 £'000
Current		
Trade payables	**360**	353
Amounts owed to group undertakings	**55,166**	34,648
Accruals	**716**	684
Corporation tax payable	**4,393**	-
Other tax and social security payable	**144**	238
VAT liability	**902**	1045
Other payables	**117**	302
	61,798	37,270

Amounts owed to Group undertakings relates to trading balances, interest free and repayable on demand.

17. Equity

	2018 shares	2018 £'000	2017 As restated shares	2017 As restated £'000
Issued and fully paid				
Ordinary shares of £0.01 each	**8,339,335,361**	**83,393**	8,339,335,361	83,393

Share premium represents the premium paid over par value for shares issued.

18. Share-based Payments

The Company recognises a share-based payment expense based on the fair value of the awards issued by The Sage Group plc to the Company's employees, this is achieved by way of an intercompany recharge from the The Sage Group plc to the Company.

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.

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.

Notes *(Continued)*

18. Share-based Payments *(Continued)*

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 20% of options will lapse over the service period as employees leave the Group.

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.

19. 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.

20. Immediate and ultimate parent company

The Company's immediate parent undertaking is Sage Online Holdings 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 upon Tyne, NE13 9AA.