

Registration number 09506951

Sage Global Services Limited
Report and Financial Statements
Year ended 30 September 2019

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Sage Global Services Limited
Year ended 30 September 2019
Report and Financial Statements

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Strategic Report

The directors present their Strategic Report on Sage Global Services Limited ("the Company") for the year ended 30 September 2019. 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 the business

The Company reported a loss on ordinary activities before taxation of £76,013,000 (2018: £2,959,000 profit) on a turnover of £4,196,000 (2018: £2,010,000). The loss for the year, after taxation, amounted to £75,323,000 (2018: £2,215,000 profit). The increase in revenue of 109% (2018: 325%) is due to the expected high growth in an early stage of a Company's life cycle. The decrease in profit is primarily due to a change in the Group's transfer pricing tax policy for recharging global costs incurred by the Company to other members within the Group, resulting in a significant decrease in the Company's ability to recharge costs incurred.

Future developments

Management will continue to evaluate the operating model of the Company in order to improve the financial performance in future operating periods.

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 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

- Understanding Customer Needs
- Product Strategy
- Innovation
- Route to Market
- Customer Success
- Third Party Reliance
- Sustainable Processes and Controls
- Colleague Success
- Values and Behaviours
- Information as an Asset

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

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Strategic Report (continued)

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 & Risk 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.

On behalf of the Board

DocuSigned by:

1895604EC00649A...
S J Rolls
Director

23 June 2020

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Directors' Report

The directors present their report and the audited financial statements of Sage Global Services Limited ('the Company') for the year ended 30 September 2019.

Principal activities

Sage Global Services Limited is the global contracting entity for the Sage Group and holds significant Group contracts.

Sage Global Services Limited is also the intellectual property owner of Sage Live and is responsible for the IP development, protection and exploitation activities in respect of this product.

Future developments

Management will continue to evaluate the operating model of the Company in order to improve the financial performance in future operating periods.

Results and dividends

The loss for the year, after taxation, amounted to £75,323,000 (2018: £2,215,000 profit). The directors do not recommend the payment of a dividend.

Directors

The names of the persons who were directors at any time during the year ended 30 September 2019 are set out below. Unless indicated otherwise they served as directors for the entire period.

V L Bradin

J-H F Liepe (resigned on 4 April 2019)

J McDonough (appointed on 4 April 2019 and resigned on 1 March 2020)

S J Rolls

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.

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.

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Directors' Report (*continued*)

Subsequent event

The COVID-19 pandemic has caused significant social and economic disruption in the markets in which Sage operates. The Group's response to the pandemic has been to ensure the wellbeing of colleagues, to continue serving and supporting our customers, and to remain focused on our SaaS transition strategy. With the Group's focus on high quality recurring and subscription-based revenues, and strong liquidity position, Sage has entered the COVID-19 pandemic in a strong operational and financial position. As a result, the effect on the Company's financial performance to date has been limited. However, there remains a high level of uncertainty regarding the extent of the crisis and impact of associated lockdowns.

As the outbreak of COVID-19 occurred after 30 September 2019 and to date the impact has been limited, it is considered to be a non-adjusting event under IAS 10 – Events after the reporting period. Therefore no adjustments to the financial statements as at 30 September 2019 have been made. Given the high level of uncertainty it is not possible to estimate the financial effect of the COVID-19 disruption on the Company.

Going concern

The directors have robustly tested the going concern assumption in preparing the financial statements. To date there has been limited impact from COVID-19 on trading performance in FY20 and the directors remain satisfied that the going concern basis of preparation is appropriate. However, given the high level of uncertainty a letter of support from the Company's ultimate parent, The Sage Group plc, has been provided for a period of 12 months from the date of this report, to enable the Company to meet its liabilities as and when they become due.

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

DocuSigned by:

1895F04EC00849A...
SJ Rolls
Director

23 June 2020

Sage Global Services Limited
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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 GLOBAL SERVICES LIMITED

Opinion

We have audited the financial statements of Sage Global Services Limited for the year ended 30 September 2019 which comprise the Income statement and other comprehensive income, Balance sheet, Statement of changes in equity and the related notes 1 to 18, 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".

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 September 2019 and of its loss 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.

Emphasis of matter – Effects of COVID-19

We draw attention to Note 1 of the financial statements, which describes the economic and social consequences the company is facing as a result of COVID-19 which is impacting the financial markets in which Sage operates. Our opinion is not modified in respect of this matter.

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 Strategic report and Directors' report set out on pages 3 to 6, 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 period 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 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

Mark Morritt (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Leeds, United Kingdom
25 June 2020

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Income statement and other comprehensive income

	Note	2019 £'000	2018 £'000
Revenue	3	4,196	2,010
Cost of sales		(10)	(5)
Gross profit		4,186	2,005
Selling and administrative (expenses)/income		(82,014)	790
Operating (loss)/profit	4	(77,828)	2,795
Finance income	6	2,431	379
Finance costs	7	(616)	(215)
(Loss)/profit before income tax		(76,013)	2,959
Income tax credit/(expense)	8	690	(744)
(Loss)/profit for the year		(75,323)	2,215
Total comprehensive (expense)/income		(75,323)	2,215

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

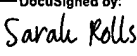
The notes on pages 14 to 28 form part of these financial statements.

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Balance Sheet

	Note	2019 £'000	2018 £'000
Non current assets			
Investments	9	-	-
Other intangible assets	10	36,454	31,994
Property, plant and equipment	11	1,603	2,098
Deferred income tax assets	8	550	182
		38,607	34,274
Current assets			
Trade and other receivables	12	182,958	106,048
Cash and cash equivalents		21,040	12,303
		203,998	118,351
Total assets		242,605	152,625
Current liabilities			
Trade and other payables	13	(481,061)	(315,273)
Deferred income		(340)	(646)
		(481,401)	(315,919)
Non current liabilities			
Provisions	14	(311)	(490)
		(311)	(490)
Total liabilities		(481,712)	(316,409)
Net liabilities		(239,107)	(163,784)
Equity attributable to owners of the parent			
Ordinary shares	15	4,626	4,626
Retained earnings	15	(243,733)	(168,410)
Total equity		(239,107)	(163,784)

These accounts were approved by the directors and authorised for issue on 23 June 2020, and are signed on their behalf by:

DocuSigned by:

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S J Rolls
Director
Company registration number: 09506951

The notes on pages 14 to 28 form part of these financial statements.

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Statement of changes in equity

	Note	Ordinary shares £'000	Retained earnings £'000	Total equity £'000
Balance at 1 October 2017	15	4,626	(170,625)	(165,999)
Profit for the year		-	2,215	2,215
Total comprehensive income for the year ended 30 September 2018		-	2,215	2,215
Balance at 30 September 2018		4,626	(168,410)	(163,784)
Balance at 1 October 2018	15	4,626	(168,410)	(163,784)
Loss for the year		-	(75,323)	(75,323)
Total comprehensive expense for the year ended 30 September 2019		-	(75,323)	(75,323)
Balance at 30 September 2019		4,626	(243,733)	(239,107)

The notes on pages 14 to 28 form part of these financial statements.

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Notes

1. Accounting policies

Sage Global Services 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'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 EU adopted International Financial Reporting Standards and are available to the public and may be obtained from the address given in note 17.

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.

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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.

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), rounded to the nearest thousand (£'000).

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

The Directors have robustly tested the going concern assumption in preparing the financial statements. To date there has been limited impact from COVID-19 on trading performance in FY20 and the Directors remain satisfied that the going concern basis of preparation is appropriate. However, given the high level of uncertainty a letter of support from the Company's ultimate parent, The Sage Group PLC, has been provided for a period of 12 months from the date of this report, to enable the Company to meet its liabilities as and when they become due.

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.

Identification of performance obligations

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

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Notes (Continued)

1. Accounting policies (Continued)

Determination of transaction price and standalone selling prices

The Group determines the transaction price it is entitled to in return for providing the promised obligations to the customer based on the committed contractual amounts, net of sales taxes and discounts. Contract terms generally are monthly or annual and customers either pay up-front or over the term of the related service agreement. The transaction price is allocated between the identified obligations according to the relative standalone selling prices (SSPs) of the obligations. The SSP of each obligation deliverable in the contract is determined according to the prices that the Company would obtain by selling the same goods and/or services included in the obligation to a similar customer on a standalone basis.

Timing of recognition

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

Licences for standard software products are typically delivered by providing the customer with access to the software. The licence period starts when such access is granted. Licence revenue is recognised at a point in time or over time depending on whether the Company delivers software with significant standalone functionality or software which is dependent on updates for ongoing functionality. The Company recognises revenue for these licenses which have significant standalone functionality at the point in time when the customer has access to and thus control over the software. For licences which are dependent on updates for ongoing functionality the Company recognises revenue based on time elapsed and thus rateably over the term of the contract. Typically, this includes our payroll and tax compliance software.

Where the Group's performance obligation is the grant of a right to continuously access a cloud offering for a certain term, revenue is recognised based on time elapsed and thus rateably over the term.

Identification of contract with the customer

When the Company sells goods or services through a business partner, a key consideration is determining whether the business partner or the end user is Sage's customer. The key criteria in this determination is whether the business partner has taken control of the product. This is usually assessed based on whether the business partner has responsibility for payment, has discretion to set prices and takes on the risks and rewards of the product from Sage.

Principal versus agent considerations

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

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Notes (Continued)

1. Accounting policies (Continued)

the Company and its supplier. This takes into account whether Sage bears the price, inventory and performance risks associated with the transaction.

Practical expedients

As the majority of contracts are paid over the term of service any financing component is not considered when determining the transaction price.

Cost of sales

Cost of sales includes 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.

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.

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Notes (Continued)

1. Accounting policies (Continued)

Trade and other receivables

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

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

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

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

For amounts owed by group undertakings that are trade receivables, the Company applies the simplified approach using a provision matrix as for external trade receivables. For other amounts, the Company applies IFRS 9's general approach under which a provision for 12-month expected credit losses is recognised unless the credit risk associated with the receivable is deemed to have increased significantly since its initial recognition, in which case lifetime expected credit losses are recognised.

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.

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.

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Notes (Continued)

1. Accounting policies (Continued)

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.

Research and development

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

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.

Recoverability of amounts owed by group undertakings

Amounts owed by group undertakings to which IFRS 9's general approach to recognising expected credit losses applies requires determination of whether the amounts are recoverable based on whether the other party is able to repay. This is performed by assessing the assets and liabilities of the other party and the period over which it would be able to repay the amount due if required. A provision is recognised for any shortfall in the amounts that the counterparty would be able to repay compared to the outstanding balance. Where a balance attracts interest, the amount to be repaid is discounted at the applicable interest rate.

The carrying value of amounts owed by group undertakings at 30 September 2019 was £168,057,000 (2018: £97,623,000) and no impairment losses have been recognised (2018: £nil).

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Notes (Continued)

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:

	2019	2018
	£'000	£'000
United Kingdom	2,124	1,026
Europe	2,072	984
	4,196	2,010

4. Operating (loss)/profit

Operating profit/(loss) is stated after charging:	2019	2018
	£'000	£'000
Depreciation of owned property, plant and equipment	770	865
Amortisation of intangibles	6,674	3,981
Staff costs recharged by group undertakings	-	7,704
Loss on disposal of property, plant and equipment	-	549
Operating lease costs:		
- Other	30	20

The decrease in operating profit is primarily due to a change in the Group's transfer pricing tax policy for recharging global costs incurred by the Company to other members within the Group, resulting in a significant decrease in the Company's ability to recharge costs incurred.

Auditors' remuneration is borne by the ultimate parent company, The Sage Group plc, for the year.

The directors did not receive any emoluments during the year in respect of their services to the Company.

Operating lease costs have been recharged by another group undertaking during the year.

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5. Staff Costs

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

	2019	2018
	No	No
Research and development	35	22
Field sales	16	18
Sales support / customer service	56	61
Marketing	64	80
Finance	76	103
IT	18	25
Administration	55	58
	320	367

The aggregate payroll costs of the above were:

	2019	2018
	£'000	£'000
Wages and salaries	33,978	19,568
Social security costs	5,094	4,444
Other pension costs	2,885	1,743
	41,957	25,755

6. Finance Income

	2019	2018
Interest receivable from group undertakings	2,421	87
Interest on short term deposits	10	-
Foreign exchange gains	-	292
	2,431	379

7. Finance costs

	2019	2018
	£'000	£'000
Interest payable to group undertakings	-	215
Bank fees	36	-
Foreign exchange losses	580	-
	616	215

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8. Income tax expense/(credit)

	2019	2018
	£'000	£'000
Current tax expense		
- Current year	493	869
- Correction to prior year's expense	(815)	-
Deferred tax expense/(credit)		
- Current year	(23)	(63)
- Correction to prior year	(345)	(62)
Total income tax expense/(credit)	(690)	744

Reconciliation of effective tax rate

The tax credit (2018: charge) for the year is lower (2018: higher) than the standard rate of corporation tax in the UK of 19.0% (2018: 19.0%). The differences are explained below:

	2019	2018
	£'000	£'000
(Loss)/profit before income tax	(76,013)	2,959
Tax calculated at UK standard rate of corporation tax of 19.0% (2018: 19.0%)	(14,442)	562
Impact of tax law changes and rates	3	7
Adjustments in respect of prior periods	(1,160)	(62)
Expenses not deductible	1,118	207
Withholding tax	493	57
Imputed interest	-	(27)
Group relief surrendered for no payment	13,298	-
Total income tax (credit)/expense	(690)	744

Deferred tax assets totalling £550,000 (2018: £182,000) have been recognised on the Company's balance sheet at year end, representing temporary differences on fixed assets and other timing differences.

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

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9. Investments

	£'000
Cost	
As at 1 October 2018 and 30 September 2019	4,626
Provision for diminution in value	
As at 1 October 2018 and 30 September 2019	(4,626)
Net book value	
As at 1 October 2018 and 30 September 2019	-

Investments represent shares in subsidiary undertakings.

The following table lists the Company's subsidiary undertakings. All subsidiaries are held directly.

	Country of incorporation	Class of shares held	Ownership	
			2019	2018
Sage Global Services US, Inc ¹	US	Ordinary	100%	100%
Sage Global Services (Ireland) Limited ²	Ireland	Ordinary	100%	100%

¹ registered address is 271 17th Street NW, Suite 1100, Atlanta, Georgia 30363, USA

² registered address is Number One, Central Park, Leopardstown, Dublin 18, Ireland

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10. Other intangible assets

	Software
	£'000
Cost	
At 1 October 2018	37,492
Additions	11,134
At 30 September 2019	48,626
Amortisation	
At 1 October 2018	5,498
Charge for the year	6,674
At 30 September 2019	12,172
Net book value	
At 30 September 2019	36,454
At 1 October 2018	31,994

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

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Notes (Continued)

11. Property, plant and equipment

	Leasehold land & Buildings	Plant & Machinery	Fixtures & Fittings	Motor Vehicles	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 October 2018	956	1,532	1,288	3	3,779
Additions	12	58	205	-	275
At 30 September 2019	968	1,590	1,493	3	4,054
Depreciation					
At 1 October 2018	671	687	320	3	1,681
Charge for the year	166	405	199	-	770
At 30 September 2019	837	1,092	519	3	2,451
Net book value					
At 30 September 2019	131	498	974	-	1,603
At 1 October 2018	285	845	968	-	2,098

Depreciation expenses have been charged through selling and administrative expenses.

12. Trade and other receivables

	2019	2018
	£'000	£'000
Current		
Trade receivables	217	1,879
Amounts owed by group undertakings	168,057	97,623
Other receivables	360	-
VAT recoverable	3,927	-
Prepayments and accrued income	10,397	6,546
	182,958	106,048

Amounts owed by Group undertakings are unsecured, repayable on demand and attract a rate of interest of between 0% and USD 1 month LIBOR plus 1.5% (2018: 0% and USD 1 month LIBOR plus 1.5%).

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13. Trade and other payables

	2019 £'000	2018 £'000
Current		
Trade payables	4,498	6,957
Amounts owed to group undertakings	448,332	293,740
Other tax and social security payable	2,913	1,263
Bank overdrafts	-	808
Corporation tax payable	-	815
Accruals	25,318	11,690
	481,061	315,273

Amounts owed to Group undertakings are unsecured, repayable on demand and attract a rate of interest of between 0% and USD 1 month LIBOR plus 1.5% (2018: 0% and USD 1 month LIBOR plus 1.5%).

14. Provisions

	£'000
At 1 October 2018	490
- Release during the year	(179)
At 30 September 2019	311

	Dilapidations £'000
Maturity profile	
Within 1 year	-
Within 2 to 5 years	311
At 30 September 2019	311
Current provision	-
Non current provision	311
At 30 September 2019	311

Dilapidations

A provision of £311,000 is recognised as the expected amount of dilapidations due to be paid on completion of one of the operating leases held by the Company.

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15. Equity

	shares	2019 £'000	shares	2018 £'000
Issued and fully paid				
Ordinary shares of £1 each	4,626,001	4,626	4,626,001	4,626

Retained earnings represent cumulative comprehensive income.

16. 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.

17. Immediate and ultimate parent company

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

The ultimate parent undertaking and ultimate controlling party is The Sage Group plc, a company registered in England and Wales. 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.

18. Post balance sheet event

The COVID-19 pandemic has caused significant social and economic disruption in the markets in which Sage operates. The Group's response to the pandemic has been to ensure the wellbeing of colleagues, to continue serving and supporting our customers, and to remain focused on our SaaS transition strategy. With the Group's focus on high quality recurring and subscription-based revenues, and strong liquidity position, Sage has entered the COVID-19 pandemic in a strong operational and financial position. As a result, the effect on the Company's financial performance to date has been limited. However, there remains a high level of uncertainty regarding the extent of the crisis and impact of associated lockdowns.

As the outbreak of COVID-19 occurred after 30 September 2019 and to date the impact has been limited, it is considered to be a non-adjusting event under IAS 10 – Events after the reporting period. Therefore no adjustments to the financial statements as at 30 September 2019 have been made. Given the high level of uncertainty it is not possible to estimate the financial effect of the COVID-19 disruption on the Company.

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